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REVIEW OF THE GRACE COMMISSION REPORT ON THE DEPARTMENT OF AGRICULTURE

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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CONTENTS

Page

Helms, Hon. Jesse, a U.S. Senator from North Carolina, opening statement 1

CHRONOLOGICAL LIST OF WITNESSES

Grace, J. Peter, chairman and chief executive officer, W. R. Grace & Co., and chairman, executive committee, President's Private Sector Survey on Cost Control, New York, N.Y., and J. P. Bolduc, senior vice president, W. R. Grace & Co., and chief operating officer, President's Private Sector Survey on Cost Control 1
Cox, Clifton B., chairman, Cox, Lloyd Associates, Phoenix, Ariz 12
Donoghue, Richard D., manager, Ernst & Whinney, Chicago, Ill 13
Knott, Gregory A., assistant manager, computer processing, Deere & Co., Moline, Ill 18
Marsh, Paul E., vice president, the Northern Trust Co., Chicago, Ill 22

APPENDIX

Helms, Hon. Jesse, a U.S. Senator from North Carolina, statement 33
Huddleston, Hon. Walter D., a U.S. Senator from Kentucky, statement 33
Grace, Peter J., chairman, executive committee, President's Private Sector Survey on Cost Control, statement 36
Congressional Budget Office (CBO) and General Accounting Office (GAO) review of the recommendations made by the Grace Commission 47

REVIEW OF THE GRACE COMMISSION REPORT ON THE DEPARTMENT OF AGRICULTURE

WEDNESDAY, FEBRUARY 22, 1984

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 9:06 a.m., in room 328-A, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms, Lugar, Huddleston, and Zorinsky.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order. The Chair is going to dispense with all formality this morning and cut the preliminaries short. I have a prepared statement, Mr. Grace, that I am going to put in the record about you,[1] paying tribute to you, and I might say, sir, that you were the subject of a discussion during the adjournment of the Senate at my home in Raleigh. And my 4-year-old granddaughter was visiting us and we kept talking about the Grace Commission.

And finally she said, "You mean Amazing Grace?" [Laughter.]

And I said, "Come to think of it, he is kind of amazing."

We are delighted to have you here. Mr. Grace has another hearing at 10 o'clock. And after Mr. Grace there will be a panel of five distinguished members of the task force. So we will get right to that and we will be glad to hear from you. And we welcome you, Mr. Grace. Thank you very much.

STATEMENT OF J. PETER GRACE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, W. R. GRACE & CO., AND CHAIRMAN, EXECUTIVE COMMITTEE, PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, NEW YORK, N.Y.; AND J. P. BOLDUC, SENIOR VICE PRESIDENT, W. R. GRACE & CO., AND CHIEF OPERATING OFFICER, PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

Mr. GRACE. Mr. Chairman, I am pleased to accept your invitation. I hate to read this stuff, because reading it does not sound too good, but I guess that is what we are supposed to do here.

[1] See p. 35 for the prepared statement of Senator Helms.

The CHAIRMAN. Well, we can do it one of two ways, sir. We can include the entire statement in the record and you can summarize and extrapolate or whatever you wish to do.

Mr. GRACE. I will go fast, but I will not read everything.

The CHAIRMAN. But your whole statement will be in the record.[1]

Mr. GRACE. This committee we think might be interested in the elimination of overlapping and duplicative benefits under the food stamp and various other nutrition programs, revision of food stamp benefit formulas to reflect the changes in the composition of typical recipient families, plus other operational and procedural recommendations. That works out at $6.7 billion over 3 years.

The transition from direct to guaranteed lending in the Farmers Home Administration, from direct to guaranteed lending in the programs, and greater use of the private sector to improve loan quality and payment performance, $1.5 billion over 3 years.

The fee structure in the Forest Service's timber sales program, and for various recreational services, which it provides, is a 3-year savings of $1.4 billion. As you know, the background, President Reagan did this in California. He thought it would work in the Federal Government, and he appointed us on June 30, 1982, and we had 161 people and 37—36 task forces and we had about 2,000 people here.

We had 36 reports. Let me take 1 second here to say that it has utterly amazed me, Mr. Chairman, with 20,000 pages of material and 2,478 recommendations that peopl within 3 days after the issuance of the report knew they were exaggerated, knew that they were all wrong. So, I mean, these are the fastest readers I have ever encountered in my whole life, at any rate.

And I always have operated on the theory of the Chinese proverb, it is better to light a candle than to curse the darkness. And these people that are criticizing this stuff within 3 days, I just do not understand it.

The areas of program waste and inefficiency and system failures account for $312.2 billion or almost three-quarters of the $424.4 billion total in the whole thing. And that is on the next chart.

Program waste, there are 443 recommendations, subsidy program expenditures, lending programs, and debt collection activities.

Now, when the Reagan administration took office, Mr. Chairman, there is about now $767 billion that is owed the Federal Government by other people in addition to the Government borrowing $1.5 billion. They are owed half of that of $767.4 billion, I think it is, and that money was never included. I think it was due or overdue or something. This whole thing was just a morass. It is not being colleged properly. There were only two or three attempts made to collect the money and the private sector is 24 to 36 times.

Now, it is unfortunate that people have to go after collecting 24 to 36 times. That is a fact of life in the private sector, and, of course, we know right off the bat that the $2.3 billion of student loans that have not been paid by such people as surgeons and lawyers who are making good money, that there were 44,000 Government employees and retired Federal Government employees who owed on their student loans.

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[1] See p. 36 for the prepared statement of Mr. Grace.

Now, that kind of thing could never happen if this stuff was on computers. Everybody would be identified, and no corporation would be paying their employees fully if they were not paying years back, what they owed the employers.

There were system failures, 1,052 recommendations. The information gap, I think, is the most important thing down here. There is just no information. There is data as high as the ceiling, but as far as the information that you need to run the Government, it is not here, and the first day I was on the job, the President said to me, out in California, he says, you know, out here in California I think they have more Federal employees than we had State employees when I was Governor.

And he said, I do not know what they are all doing out here. Will you look into that. So I said, of course, Mr. President. We had a little office in the Executive Office Building and right under the OMB and we were told to go upstairs and talk to the people and I have discussed it with a number of business people because the three powers that one needs when—we are in 48 foreign countries. We have 82,000 employees. And a lot of people say, "Well, how do you run that?"

Well, it is very simple. You have three powers. You can set an organization chart as to who runs what, and who they report to, and if you have 10 people reporting to you that you have complete trust in—we have 82,000 employees, we can find 10 people that we trust and who work hard.

The CHAIRMAN. Senator Lugar has joined us.

Senator LUGAR. Good morning.

Mr. GRACE. And he is so good looking, too, and I make a very poor person sitting here.

Now, the options that are available to the Government in this situation are, one, is to reduce its costs or to get revenue enhancements or to get cash acceleration, which is what we worked on, those three things, four-two-four; or to increase taxes or some combination of both.

Now, the average American median income family has really been hurt badly in the last 35 years, Mr. Chairman, because you have already a huge underground economy of $500 billion with lost income tax revenue of around $100 billion.

Now, this, of course, puts a tremendous burden at $100 billion; it is more than a third of the $289 billion which is collected on personal income taxes in total, and therefore, the median American income family, I could not believe it when I got the numbers out myself, paid an annual tax in 1948, Mr. Chairman, of only $9. And now it is $2,218. So it is 246 times that the median American income family is paying.

Now, you say, well, there is inflation. OK. Multiply the 9 by 5 to adjust it, and you have $45, and so it is 50 times. So whatever it is, it is either 246 times or 50 times and their income, their taxable income is up 7.6 times and that compares to the 246. So that is what has happened to their taxes.

As a matter of fact, in 1948 the median American family paid $9 and in 1958, $303; 1970, $902; 1981, $2,021; and in 1983, $2,218. So the Reagan tax cuts—quote, unquote—got $3 out of $2,221. So it is not a very large cut that they are all complaining about.

Now, if you look at the rate required, the average tax rate on gross income required to balance the budget, it was 0.1 percent in 1948, 6.5 percent in 1958, and 9.1 percent in 1970, 12.4 percent in 1981, and now it is 15.9. It is just going up, up, up. The actual rate is 9.2 now, and therefore, the rate necessary is 72.8 percent than the present rate.

Now, a lot of people say, well, that is because the President has reduced the taxes on the wealthy in this country, and as you know, Mr. Chairman, it was—the administration made no recommendation to reduce the top bracket from 70 to 50. That was made—originated and initiated in the Congress.

But, anyway, that is not an important issue because if you would look at page 11 and you will see we take there the percent of the taxable income flow that comes through each bracket, and believe it or not, when you get $15,000 of taxable income, you have captured 63 percent of the flow. Now, that includes everybody's income at that level. So when you put a ruler across the taxable income at $15,000, you have got 63 percent of that river that is flowing through.

And when you get to $35,000 of taxable income, you have got 90.4 percent of the flow. Now, we took the number of days you could run the Government by taking all the untaxed portion of the brackets above certain levels and at $35,000 if you took it all, you could run the Government for 41 days. And at $75,000, it is 10 days and at $100, it is 7 and at $150 it is 4.

So, I mean, if they want to tax the wealthy, that is fine, but it is just a matter of a very few days if they took it all. Now, of course, that would be the first year, Mr. Chairman, and the second and third and fourth years that income would not be there. Whether it would be in the underground economy or whether everybody would have retired to a farm in North Carolina, I do not know what, but they would not go on working like a dog and having everything above $75,000 go to the Government. So that would be a 1-year movement of getting 10 days of the Government.

Now, this, however, makes great political ammunition to say that if Reagan had not cut the taxes on the rich we would have had a much better situation. We must always remember that 90 percent of all the taxable income is $35,000 and below and that the family, the median American family is paying 246 times and his income is only up 7 times.

So, getting back again—by the way, the difference, the cumulative impact, Mr. Chairman, as I said was $10.5 trillion and that works out at $130,000 for every one of the 82 million taxpayers in this country. Now, there are 82 million taxpayers and 96 million filers; 96.5 file and 82 million pay taxes.

Now, I mentioned about the inflation. In June 1982 the rate of inflation was 13.8 and the interest rate was running 14.75. That is why we used 10 and 10. We said if you bring it down from 6 to 5, it is 408.

OK. Now, what we did, the President said, now, go after these businesses as if you were going to merge with them. And pretend you are merging and see what kind of waste and inefficiency you find. So that is what we did. We pretended we were going to merge and we made it look like—many of us have bought failing business-

es, Mr. Chairman, and we looked at it on that basis. What are all the changes you make in a failing business when you buy it. We looked at inefficiencies. We looked at duplication and overlap and we did not examine major policy issues directly. We did not study the merits of proposals to eliminate the Department of Energy or the Department of Education. We did not feel qualified to form an opinion on military strategy or weapons systems, and we did not study the policies that were the basis of such procedures nor the foreign aid situation.

We do not think we can come in here and say whether I feel that foreign aid is a waste or not. That is a personal opinion and I do not think we have the right to come down here and say *x* amount of foreign aid is waste. I think that would be highly presumptuous and we did not.

Now, the first time I met the President in Los Angeles he told me, I know there is a lot of waste in the Defense Department. We have a certain number of weapons systems which somebody who is in my position has to decide what this country needs to defend itself. I would appreciate it if you would leave out playing around with the weapons systems. But find the waste.

And I told him I had never subscribed to Popular Mechanics and therefore I was not very good at weapons systems anyway. But we would try to get—find the waste and we did. We have $94 billion, a 3-year savings, in the Defense Department, despite the fact that a lot of people who are inclined to attack this report say that we moved in on social programs.

That is not true at all. When we found, like in the food stamps, that the formula in 1972 was based on 4 to a family and ages of 9 and 16 or something like that and the demographic change has been such that you bring it back to 2.6 and that you also have piggybacked on top of the food stamps the school lunch program, it is quite obvious that we are giving a lot more than we were. Now, maybe we should or we should not, but it is not doing what it was established to do.

And of course, the inefficiency in running the food stamps has been of course very glaring and you have a second currency that is used for everything. And in Puerto Rico, for instance, there were three people who got away with $100 million in 18 months; $100 million, you know, three people; that was a lot of money.

Now, there is a lot of recommendations that we made how this thing could be more efficient. And one of the first things that we were accused of when we got down in Washington, Mr. Chairman, people said—you know—what are these businessmen doing down here. They do not know anything about Government. And that is true. We do not know anything about Government and many businessmen—to go back to Charlie Wilson when he came down here for President Eisenhower, you know, they said, what is good for General Motors is good for America and look how stupid that is, et cetera, et cetera.

So what we tried to do was to see what functions of the Government that business people do every day like breathing in and breathing out. It is part of their life. We have on page 15 lending money. The Government lends $764.6 billion. As I mentioned earlier, they make only three attempts to collect. They do not even gar-

nish the salary of their own employees, 44,000 of them, who have not paid on their student loans. And the private sector lend $1.5 trillion, and they have a whole lot of methodologies that the Government does not use when it lends money.

Now, timberland management, 105 million acres. The private sector has 347 million and the U.S. Forest Service gave away $235 million of firewood in 1981 and that is 24.5 percent of the total amount harvested.

Now, if it is not my money, I would do that. In the private sector when you are running a company you could not do that, give away 24.5 percent.

Grazing land, I am a farmer in South Carolina, and there is 163 million acres of grazing land that the Government has. The private sector has 587 million. They collected $15 million in grazing fees while providing $41 million in services and recovered 36.6 percent of your costs.

Now, I own pastureland and I do not get rich, but I get much more than 36.6 percent of my costs.

Hospital management, 177,000 beds in the Government; 1.481 million in the private sector; in the Bronx where I come from in New York, the VA Hospital, $191,300 per bed is the cost and in your State, Mr Chairman, Duke University, they construct a bed for $97,400. Nursing homes, the same picture, only worse; 71,000 beds versus 1,029,000 in the private sector.

The VA spends $61,250 per bed and that is four times, practically, the $16,000 per bed that a major private sector nursing home operator spends.

Go on and on. ADP—call it off? OK. Well, we have all this listed here, ADP, inventory management, electric power, borrowing money, R&D funding, the Oak Ridge researchers have to consult 114 DOE offices for funding approval, transportation of persons, they do not do that professionally, payroll. It costs the Army $4.20 to process the payroll check. It is $1 in the private.

Freight handling, they do not negotiate volume discounts. They do not order soon enough. Building maintenance, they have 17 times as many people for 2.6 billion square feet of space, which is the 10 largest cities times four, all the office space. It goes on and on and on. And so what do you want to do now, wind it up or what?

All right. So, there is it. Foreign exhange, just a little thing. We are in 48 countries. We are dealing with all these currencies. The Federal Government never hedges and it costs them $438 million over 3 years not to hedge.

So, there it is, massive inefficiency, massive waste. We have identified 424.4. It amounts to $10.53 trillion over 17 years and here we are. Thank you, Mr. Chairman. He is giving me—he keeps nudging me and giving me the business.

The CHAIRMAN. It happens to me all the time. They pass me cards and tell me to shut up and all that sort of thing.

Mr. Grace, this is most impressive. Do not worry about the criticism that you have received. Sam Ervin had an expression that he said he got from a constituent in his neck of the woods in North Carolina. As the fellow said about a newspaper editor, "he don't know nothing, and he's got that tangled up."

You have done an enormous amount of work here. But I was sitting here thinking, Senator Lugar and Senator Zorinsky, that what we really need is for these findings to be the basis of an educational program across this country.

Mr. GRACE. We do.

The CHAIRMAN. I have many erudite friends in North Carolina who are tops in their professions and in their businesses who simply do not understand what you are talking about. And if we cannot get them to understand, how can we expect the average man to understand.

In the first place, I doubt that 1 out of 100 people in this country understands the threat of compounding.

Now, you and I were talking about this subject before the hearing began, and I related to you, and I will relate for the record, my experience trying to find out what the foreign aid program had cost.

We found, as you found in so many areas, that nowhere in this city could a computer be punched and get the answer to that. So we had to go file by file, country by country, year by year to get a total. And it took something like 4 or 5 months for three or four members of my staff to work that out.

And then I sent them back and I said, I want you to operate on the theory, which is true, that this money was borrowed money, that the U.S. Government had borrowed it. Now, lay aside arguments pro or con on foreign aid. I do think the Government ought to know, and the people ought to know, what each of these programs costs. So I told my folks to start with 1946, establish the average interest rate that the Government was paying that year and factor that in, roll it over, 1947, do the same thing all the way up to the present time.

And many times I have asked people from my State and others to give me an estimate of what they think the total was. Frankly, when my staff brought me the total I said this could not be true. Send it back through the computer and let us get the right figure.

They said, well, this is right, but they took it back and they ran it through the computer again and brought back exactly the same figure, which happened to be $2,300 million. That is one program.

Lay aside the arguments pro or con; I do not think people in this Government, in this Congress, have the vaguest notion of what it costs to operate this Government. That is what you are saying. Now, you are limited here, I might say, by your own time.

Mr. GRACE. Well, because of another Senate hearing.

The CHAIRMAN. Exactly, you have a 10 o'clock timeframe.

Mr. GRACE. Our time is the Senate's time.

The CHAIRMAN. Well, I do not want to keep you. I believe you are going to appear before Senator Stafford's committee at 10 o'clock.

Mr. GRACE. That is it, at the request of Senator Domenici.

The CHAIRMAN. Well, frankly, I wish you could stay here all day.

You did not get to the Farmers Home Administration in your prepared remarks, but let me do it for the record. The task force has proposals which would transfer the Farmers Home Administration housing programs to HUD and the FmHA community development programs to the Small Business Administration.

Inasmuch as the Farmers Home maintains offices in almost every county in the United States and HUD and SBA maintain only State or area offices, would not farmers in rural communities be better served if local offices were to continue to administer these programs?

Mr. GRACE. You understand, so I just explain the ground rules, Mr. Chairman, these studies, we had to go over 1.7 trillion annual movements.

The CHAIRMAN. I understand.

Mr. GRACE. And we had 36 task forces, 2,000 people. So the project manager of each task force—in this case, Cliff Cox, they really are the ones that are able to answer these questions.

The CHAIRMAN. Yes, well, I certainly understand that no one human being could hold all this information in his head.

Mr. BOLDUC. I think, Mr. Chairman, the question is a good one, but it focuses principally on field locations. I think there are approximately 1,750 FmHA county offices throughout the country. There is a lot more that needs to be considered in terms of administering a loan program, such as expertise of the individual making the risk assessment at the time the loan is made and the kind of followup control that Peter talked about earlier.

We found that in the loan-making business, that if you are in the business of making housing loans and you are able to build a staff with adequate competency in housing loans, you in turn can build the kind of structure and the kind of financial management information systems you need for housing loans.

When you are dealing with farm ownership, farm operation, and farm improvement loans, that is a different kind of loan-making business, and a different kind of income structure. Therefore our position is that you needed to take a look at not only the field structure, but take a look at the organization, the capability of the individuals and the management systems.

And, we felt that in the case of SBA and in the case of HUD they appeared to be better qualified structurally, systemwise and peoplewise to take over certain operations and, in turn, transfer over to the Farmers Home Administration from the Small Business Administration certain farm-related programs that ought to be within the Department of Agriculture because that's where the farm expertise is.

Cliff?

Mr. COX. Yes; we felt that the Farmers Home should do the farm housing, but in much of the housing that's being done by Farmers Home, it is really subdivisions on the edge of large cities. And the FmHA is certainly qualified to service those.

Mr. GRACE. I might say, by the way, that 70 percent of the loans, Mr. Chairman, are made to nonfarmers. Is that correct, Cliff?

Mr. COX. Well, we have a book. I would have to look up the exact figure, but that is in the neighborhood.

Mr. BOLDUC. I think that is in the ball park.

Mr. GRACE. We have that. It is 70 percent.

The CHAIRMAN. Well, I tell you, let me allow Senator Lugar and Senator Zorinsky to have a question or so before you must leave.

Senator ZORINSKY. Well, I have no questions. I just want to compliment the work they have done. I have always felt a prerequisite

to spending other people's money is that you should have had to meet a payroll yourself. I appreciate your being here.

The CHAIRMAN. That is right. Senator Lugar.

Senator LUGAR. Let me just ask a question regarding the U.S. Government's attempts to collect overdue loans from individuals, businesses, and other nations for that matter.

You pointed out that HUD makes three attempts to collect loans and they are 41 percent delinquent. Does the Commission have any judgment whether the American people who have been loaned money consider these loans grants?

As a matter of fact, there has been great resistance on the part of many people, not only college students, but others to make repayments, and they feel a great deal of antipathy toward those who have tried to collect that money.

They were engaged in something here that was totally unfeeling, uncaring, unfair, altogether. In other words, it becomes a political issue, the very thought of collecting.

Now, maybe you, from a neutral point of view, that is the way life is, but could you make any general comment on this. How do we face this problem and what has been thought of as an entitlement or a grant, as opposed to a loan that ought to be repaid?

How is the distinction made or how does it become credible, because obviously with $764 billion outstanding, this involves substantial sums of money?

Mr. GRACE. Well, I have thought about that, Senator, and of course by now we are getting into personal opinion and that is always dangerous. But looking over history—I have been a student of history. I think the people generally take their cue from their leaders. Now, I have been following the most recent primary situation, and it is a question about outpromising each one.

And I am not criticizing the eight people who are running for the Democratic Presidential nomination. But it seems in this country—and whether you go to that kind of a situation or even in a local congressional election, everything is to outpromise the other person.

And as long as the American people will pretty well elect the candidate that does the most promising, it is quite clear that they do not realize that we have run out of money in this country, which we have.

We are going to have an annual deficit, which we said, Senator Lugar, before you came in, of $2 trillion. Now, we brought DRI, Data Resources, Inc., in. There are 962 social programs. We have no idea whether that many are needed. And, as you know, they are formularized in the Congress, and therefore you can take, for instance, on the Veterans, that is going to be $43 billion, up from $26 billion in 5 to 7 years, just based on how many veterans will be 65. No complaint. No criticism from me.

The medicare is going to be $200 billion in the red, you know, in the midnineties. So what you have to do is extrapolate this stuff out and with the information that is available and see where we are heading.

Now, if a parent had any commonsense and judgment—and I think most people in American have commonsense and judgment, but if they then knew what they were leaving for their children,

not the $1.5 trillion debt; that is bad enough; but annual deficits in the $2 trillion range. Now, the freedoms will be done.

I have 9 children and 12 grandchildren. I do not think in 17 years—that is only going back to when President Nixon was elected; it is not that far out. Their freedoms, when you start running annual deficits of $2 trillion--but you are absolutely right.

The leaders in this country, they act as if there is no problem and then somebody like President Reagan, or whoever it is, and this is not a partisan statement on my part, who tries to cut back on some of this stuff, that he is a hardhearted person.

But I mean the prudence of the situation is you have got to cut a lot of this stuff or we are all dead. All right, $200 billion has not hurt anybody very badly yet. But we all know that 50 percent of the deficit is financed by foreign money. The dollar has been strong. And at some point—it is very difficult to know when or how—this thing is going to suddenly change and then we are going to have a terrible situation. High interest rate, about 20 percent; maybe the Government will be paying 15 to 17 percent. I think it will be. It is paying 10.75 right now. And I think it will be paying 15 to 17.

And when you are doing that on a $1.5 trillion, it is $225 billion just for interest alone. And when you are doing that on the debt it is going to be between $1.8 and $1.9 trillion at the end of 1985 per the administration's own guess. Now, that is $270 billion in interest.

So we do not have the money, but you are absolutely right. The perception is that you are entitled to cheat on your taxes. You are entitled not to pay—I know very successful people that say if they do not come after me for my student loan, to hell with it. I am not going to pay them. The Government wastes the money anyway. What is another $4,000 or $5,000 from me.

So that is the attitude and that is very, very destructive and very, very worrisome. And I do not know how it ever gets addressed as long as the leaders of this country are promising more and more and never indicating to the people out there that we are in a serious bind. And if they will not tell the people we are in a bind, they are not going to listen to some jerk like me. That is about it.

Mr. BOLDUC. Senator, let me add one point to your question. The leadership that Peter is talking about has gotten down into the operating levels of Government. And, for a number of years, the emphasis on loan making in the Federal Government was not on collection, not on the adequacy, the substance and the reasonableness of the loan, but on how many dollars could be loaned out and how many loans could be made.

The salary of that individual, the workload of that individual and the grade level of that individual were determined on the basis of how many loans were made and how many dollars were loaned out, not on the delinquency rate, the reasonableness of the loan, or the lost value of the loan as a result of foreclosures, et cetera.

This administration—again, this is not a partisan comment—this administration in 1980 began with a program of changing the criteria upon which loan officers were evaluated. And, now they are not evaluated on how many loans they make or how many dollars they

loan but on how many dollars are being collected, the rate of delinquency, and the aggressiveness of the followup action.

But, you're right, there is that popular belief on the part of a lot of people that Government loans are gifts. "I do not owe you anything. This is a gift because the loan officer told me, take it and go," is all too frequently the popular belief on certain loans.

The CHAIRMAN. Let me make a couple of quick points. I know you have to go, Mr. Grace, and again I want to thank you. Let me caution you that the splendid work by this Commission is, even so, half a loaf unless we can get the information to the people.

Mr. GRACE. That is right.

The CHAIRMAN. Now, I have a friend, Alexander Solzhenitsyn; I have talked with him many times about his experiences with communism. And you have read his books. Many have, but in terms of the total population, few have.

And I have told Solzhenitsyn on countless occasions that he ought to take advantage of his acceptance across this country and go to the people. He prefers to sit up there in New England, and I can understand that, and he says he has to get it out of his head on paper. Well, that is fine to have it on paper. But if the people do not know what he is saying, then, you know, it is like a ship passing in the night.

Now, I hope that this administration or a group of private citizens will undertake some sort of educational program by television or newspaper or a combination of everything possible, speaker's bureaus at the civic groups, that sort of thing, and take this information to the people so that they can understand such elemental things as what compounding means and the disastrous effects of it.

I have gotten a lot of criticism for being hardhearted about the food stamp program. I think I have pretty well explained that back in North Carolina, despite the editors who just do not want to say it like it is. We did an analysis on just one overlap. That is the food stamps given, say, to a family of four with two children. Those two children also get free meals at school.

I am not going to pass judgment in this argument about whether that is too much, too little, or just right. What I am saying is we need to understand what this one overlap is costing. And people are astonished when I point out to them that this costs, $600 million a year, that one small overlap.

And I have tried on this committee with not an awful lot of success to get us to confront that sort of thing with the food stamp program. But all you read back home is that Helms is against feeding hungry children. Well, that is not so.

Mr. GRACE. That is right.

The CHAIRMAN. What I am trying to do is for us to understand what we are doing with such overlap. So I am saying to you that I hope that you will now do the other half of the job and put together some sort of mechanism to get the story of what you have found out to the American people. And then you will have a political impact and then you will have an impact in Congress. Not until the people understand will they support and encourage us to do what we ought to be doing as a matter of duty.

I thank you, sir, very, very much for coming, and give Senator Stafford my regards.

Mr. GRACE. Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, I cannot tell you how much I appreciate your coming here today, and your testimony will be given the widest possible circulation by this committee, beginning with the Members of the Senate.

We have Clifton B. Cox, who is chairman of Cox, Lloyd Associates in Phoenix, Ariz.; Richard D. Donoghue, manager of Ernst & Whinney in Chicago; Gregory Knott, assistant manager of computer processing, Deere & Co. in Moline, Ill.; and Paul E. Marsh, vice president of the Northern Trust Co. of Chicago.

Gentlemen, we welcome you and appreciate your sharing your time with us. You may proceed in whatever order you wish.

Mr. Cox.

STATEMENT OF CLIFTON B. COX, CHAIRMAN, COX, LLOYD ASSOCIATES, PHOENIX, ARIZ.

Mr. Cox. Mr. Chairman, we appreciate being invited. You have published our complete report so there are parts of it that we will not duplicate because it is in the report.[1]

I would like to just say that the four persons that are presenting summaries today are part of a task force of 30 people who were volunteered by 24 companies. These companies paid the expenses of the members, but the report does not in any way constitute an endorsement of the recommendations by the companies who provided the members.

No one person was responsible for an area, but the report was the result of the work of the whole team. And we are just using four for summaries today.

The report was made without regard for politics or ease of putting into effect. Our goal was to present an objective analysis of savings that could be made or revenues that could be enhanced rather than the politics of it.

Mr. Grace covered some background material, but I will just cover this summary for our recommendations and then each of our panel will present summaries of specific areas. In the agricultural task force, recommendations for the U.S. Department of Agriculture include savings that we calculate to be $3.8 billion for the first year put into effect and a total of $13 billion for the 3 years.

This would mean more than 10 percent reduction in annual outlays if implemented. In addition to budget savings, over $8 billion of Government lending would be transferred to the private sector over the next few years, reducing the Government's risk of losses and easing its need to enter the credit markets.

Included in these first year recommendations are $1.1 billion that can be implemented by the administration, $474 million that could be implemented by Executive order, and $2.2 billion that require congressional approval.

The task force addressed 58 issues and we broke them down into general areas such as food and nutrition services, which you have mentioned; savings the first year could be $2 billion and $37 million or $6.7 billion over the 3-year period.

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[1] See Draft Report of the Task Force on the Department of Agriculture, Senate Committee Print 98-76, July 1983.

The Farmers Home Administration that you also mentioned, $481 million the first year, $1.6 billion over 3 years.

Foreign and domestic commodity programs, $559 million the first year or $1.9 billion over 3 years.

Forest Service, $379 million the first year or $1.4 billion over 3 years.

Rural Electrification Administration, $44 million the first year and $145 million over 3 years.

And other areas are $298 million or $1.1 billion over 3 years.

Although not included in our savings estimate, an additional $4 billion in annual savings and $13 billion over 3 years could be achieved by modifying crop price support procedures, and these are covered in the total report.

I am going to ask Mr. Donoghue to cover now the Forest Service.

The CHAIRMAN. Thank you. Mr. Donoghue.

STATEMENT OF RICHARD D. DONOGHUE, MANAGER, ERNST & WHINNEY, CHICAGO, ILL.

Mr. DONOGHUE. Thank you, Mr. Chairman.

Before discussing our review of the U.S. Forest Service, I believe it would be worthwhile to summarize some key facts about the agency. But before I do, I would like to say that throughout our review we received the total cooperation of everyone in the Forest Service with whom we worked. They readily made information available to us, and we are grateful for their assistance and candor.

I also had occasion recently to visit with some Forest Service officials when I was in Washington on an informal basis, and I am pleased to see the substantial efforts the agency is pursuing to implement the recommendations.

At the time of our analysis in the summer and fall of 1982 the Forest Service managed 190 million acres of Federal land with approximately 40,000 employees. I think that is probably closer to 42,000 now. The agency maintained some 900 field locations throughout the country, including regional offices, research stations, and ranger district offices.

Annual sales, principally from timber, exceeded $1 billion a year. By any measure, the Forest Service compares with many of the largest corporations. In carrying out our review, we tried to focus our analysis on areas which seemed to offer the best opportunities for increasing Forest Service revenue, reducing costs, and improving efficiency.

The following areas were selected to study: User fees, recreation, firewood, and grazing, timber sales procedures, organization and staffing, data processing systems, and research activities.

In each of these five areas, in order to insure that we had obtained relevant and pertinent information, we carried out extensive interviews with appropriate department officials, including Assistant Secretary John Crowell, Deputy Assistant Secretary Doug McCleary, and Forest Service Chief, Max Peterson, as well as officials from the Office of Management and Budget, and other Federal agencies.

We also visited the Willamette National Forest, the Forest Products Laboratory in Madison, Wis., and regional offices and research

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stations around the country. In addition, we analyzed relevant internal reports on Forest Service activity, including planning documents, revenue reports, and outside consultant reports.

I would now like to address each of those five areas briefly. In the user fee area we concluded that several opportunities to increase revenue existed. We understand that legislative changes may be required to achieve some of these. These areas are firewood, recommendation No. 45, imposing even a nominal fee for a firewood permit and for wood cut would yield over $20 million in new revenue to the Treasury over 3 years.

The wood at the time of the study was free. This goes back, I believe, to 1973 at the time of the oil crisis. It originated at that time. In 1981 almost a million permittees removed 4.2 million cords of wood from the National Forests, the equivalent of 11 million barrels of fuel oil at no charge. If you equate a barrel of oil at roughly $30 a barrel, you are talking over $300 million in fuel oil equivalent.

RECREATION FEES

Changes in the law and Forest Service regulations to revise the admission fee and permit programs for the use of Forest Service land would yield substantial additional revenues. A change in the ski resort fee system and the recreation home fee system is also recommended.

For example, many major western ski resorts in the Rocky Mountain area, particularly, are on Forest Service land, yet revenues received by the Service for use of this land in 1978, the figures we had available to us, were only 2 percent of gross sales.

GRAZING FEES

Federal revenue from grazing fees—Mr. Grace touched on this briefly—from ranchers using Forest Service land, yielded 14 cents an acre at the time of our study. The cost to maintain that land for the Federal Government was 40 cents an acre. In 1982 the private grazing rate to private landholders was estimated at $8.80 per animal unit month. An animal unit month is the measure they use for determining the amount of grazing on a particular piece of property. The Federal rate at that time was $1.86 per animal unit month and it has been unchanged for several years, we understand. Legislative action, we are advised, is required to alter the rate structure.

The next area is timber sales procedures. We have recommended that the Forest Service—and again Mr. Grace touched on this—consider the following changes in timber sales procedures in order to increase cash flow and revenue. In those areas where market conditions are appropriate, implement a flat payment schedule instead of the pay-as-you-cut system now in effect in western regions.

In this way the Government would receive level income over the life of the contract. At the time of the study, timber would frequently remain unharvested until the final year of a 4-year contract with no income to the Treasury, except for a 5-percent downpayment when the contract was awarded. Contract extensions were also frequent.

What we are really saying, Mr. Chairman, is that if you receive income on a rising diagonal line over a 4-year period as opposed to now when you have a relatively flat line which rises at the final contract year the gap we are talking about is the cost of money, the time value of money in those periods where nothing is received. And if you project interest rates in that period and develop a cash model, it will reflect, as we have said in our report, roughly about $145 million a year in reduced costs. No new revenue would be received at the end of the contract period. You would receive what the contract was. However, by receiving level income the costs of maintaining the contract would be sharply reduced. If you simply put the revenue received in a passbook account, you could get 5.5 percent.

Presently, for example, a 5-percent deposit or $1 million can tie up $20 million of timber with no return to the Government for several years. If one assumes the time value of money, as I said, to be a valid concept, the Government, by receiving revenue on a level basis throughout the contract would have these funds available largely to reduce their costs in administering the program.

We also recommended that appraisals of timber be carried out using the transaction evidence approach. Presently they use what is called the residual value system where they calculate the market value of a product and subtract the cost of harvesting it and the profit in determining the relative residual value of that timber.

The residual value method is used to appraise timber in large northwestern forests, though regions VIII and IX are now using transaction evidence, which, in effect, is what the market would pay for a given piece of property or timber in a given period.

We recognize that the quality of timber in old growth forests in the Northwest may be at risk to a bidder because they cannot—we are not experts, obviously in this area—they cannot determine that possibly some of the old growth timber may be of defective quality. Therefore, in cruising the timber and determining the value of it, it may be dead inside.

On the other hand, on balance, the transaction evidence approach is a desirable concept we think they should pursue.

It was also recommended that the Forest Service adopt lump sum sales procedures. In the South and East, for example, such procedures have been in effect. This will decrease or eliminate the need for costly scaling and insure that the full bid price will ultimately be realized. What we mean is that the present pay-as-you-cut concept means a costly appraisal function and what they also call a scaling procedure at the time the timber is harvested. The Forest Service goes through a procedure whereby they measure how much is being taken out and they pay for what is being taken out. What we are saying, on a lump sum basis, the value of that contract as executed is what they should receive in revenue.

We tested in the Willamette Forest 15 major timber sales, the largest ones, and we found a relative difference of about 15 percent less in what the bid price of the timber was and what was actually taken out of the forest, whereas the lump sum payment system would ease the cost of harvesting to the Government and it would insure that they would get what the cost of that contract was.

Senator ZORINSKY. May I ask a question?

The CHAIRMAN. Sure.

Senator ZORINSKY. Mr. Donoghue, did your commission review or consider at all the situation that has developed out West, the bid contracts that are in existence now and seeking for some companies?

Mr. DONOGHUE. Senator, at the time we did the study we were aware and we did visit Willamette and the regions out there. We were aware that there was considerable hardship to many of the firms in that area. We, of course, were not competent to judge the hardship characteristic.

Senator ZORINSKY. Are you making any recommendations?

Mr. DONOGHUE. No. I do not feel—and we have talked about this—I do not feel that we really would be able to. We are getting into issues of the viability of communities, and so forth, and I do not think we really could.

We certainly recognize that those are characteristics that must be taken into consideration. I am also aware I think that recently a Federal judge has ruled on a class action suit to void 1,000 contracts of 180 timber companies. And I think that at the present time that is held in abeyance. I believe that these companies are asking for total relief of those contracts. The Forest Service—and again I may be wrong since we are talking year and a half old information—I believe that the Forest Service had initiated a period up to February 15, 1984, asking firms to request extensions on their contracts at the present rate that they had acquired the contract.

I am not sure whether this action by the Federal judge has held that in abeyance or not. But to answer your question, Senator, we were aware of that and we are well aware of it. I guess our problem was how do you characterize that in a report addressing issues of the operations of the Department. We certainly recognize they have to be considered.

Senator ZORINSKY. All right.

Mr. DONOGHUE. Another area we looked at was the organization and staffing area. And this, of course, gets to the 900 locations of the Agency and the roughly 42,000 employees. We believe that the Forest Service should examine its organization structure and staffing in an effort to reduce personnel costs through consolidation of offices, use of shared services, elimination of duplicate functions, and the adoption of a work measurement system.

Professional and technical positions in the Forest Service at the time of study were 1.4 to 2 times the concentration of these positions in the Federal Government as a whole. We recognize that this is a technical agency and that this number must be higher than the average. On the other hand, we think it is probably a little too high.

Forest Service resource planning, which is required by Federal legislation, is complex and costly. Some of the people with whom we met and dealt estimated that the resource planning function alone costs the agency possibly up to $200 million a year. It is a very complex procedure requiring every unit of the agency to develop very detailed plans. It is a most complex process.

Duplication of functions, both within the Forest Service and with other agencies, has led to increased costs. The 900 field locations of

the Service are frequently in the same cities or within practical commuting distance of other offices, resulting at the very least in duplicate administrative personnel and clerical functions. Lease costs of space are also substantial.

Now, as an example, I visited the regional office in Milwaukee, one, I believe, of eight regions, and at the time I did so 1½ years ago, they were in one of the buildings on Wisconsin Avenue. At that time in talking to them and in talking to the folks here at the Forest Service, I believe the Federal Government had built a Federal building in Milwaukee, and I think they were even required—I may be wrong on some of this—to move to that building.

The cost of doing so was considerably higher than the lease they were paying for property which was right down the street. Now, obviously that is a major office, a regional office. But we are saying that the lease cost of space would be substantial for 900 locations.

We are advised, however, that congressional appropriations language prohibits moving or consolidating Forest Service offices or adjusting regional boundaries.

No fully satisfactory system also exists for validating Forest Service staffing levels in relation to projected or actual workload. Now, we are not saying here that you need a very complex industrial engineering system to, in very detailed ways, characterize the work of 42,000 people. We think, however, there should be some system devised to give reasonable estimates of how much work there is and how many people you need.

Savings over several years from staff reduction and reorganization and other measures could exceed $100 million.

Data processing systems is another area we looked at. We did so because the agency was planning to install some 1,450 computers at a total cost of $75 million through 1986. We did not assess the justification for the new system. Our review, however, did conclude that the system was a needed upgrade, which could substantially enhance the management information process, which was sorely needed.

We were concerned that the data processing planning process was appropriate and adequate, that too frequently in new installations of data processing systems we find in the private sector the emphasis is wrong. It is usually on hardware because the vendors are selling hardware, whereas in developing a system your emphasis has to be on what are you going to do with it, in other words the system.

And that is why too many companies and too many agencies get overcomputerized. It frequently becomes a contest to see if I have a bigger computer than you. And it is a costly situation.

Appropriate recommendations were submitted dealing with information planning and organization in the data processing environment. We understand that installation of the new system is underway. I would add one more comment that is not in this report. I think that the computer system, once in place, will go far in helping the administration of the Forest Service achieve the balance of the recommendations in this report because a sound computer system can do an awful lot to reduce data handling, data gathering, and analysis. So we think it is a very needed thing.

Finally, we looked at the research activities and we recommended that the Forest Service restructure its activities to improve control, reduce costs, and enhance opportunities for greater private sector participation research efforts.

Over a 3-year period, net savings of over $25 million could be realized. Forest Service research was carried out at that time in 80 research locations throughout the country. There were approximately 240 research work units. They operate in those locations under work unit concepts where each unit is operating on a different problem or program.

We looked also at the Forest Products Laboratory in Madison where we witnessed some remarkable achievements in wood technology. They are doing some very fascinating things in wood and it really was very enlightening for us to see that.

Decentralization is the hallmark of the Forest Service and forest research is no exception. As a result, there are layers of supervision, we believe, which can be trimmed, and scattered research locations, which can be consolidated. We think, therefore, that over a 3-year period the Forest Service should work to close 20 to 25 research locations and through consolidation cease funding many of the work units.

We think there is some duplication within those, though obviously we could not look at more than a few in detail.

Cooperative research arrangements with private industry, associations, and interested parties should be pursued. I believe they meet regularly with the private sector and associations to review what they are doing in research and of course many of the private companies are doing research as well. There is a cooperative effort now underway to some extent. We think that can be enhanced.

Savings from these actions, we are estimating at approximately $200,000 per location through staffing, lease, and equipment reductions.

Finally, Senator, we appreciate this opportunity to submit this analysis of the Forest Service. And while improvements in savings can be realized over time and cost reductions achieved, the Forest Service and the people with whom we worked—and I am very sincere about this—impressed us greatly with their dedication, professionalism, and commitment to preserving the natural resources of our Nation.

Thank you.

The CHAIRMAN. Thank you very much. Mr. Knott.

STATEMENT OF GREGORY A. KNOTT, ASSISTANT MANAGER, COMPUTER PROCESSING, DEERE & CO., MOLINE, ILL.

Mr. KNOTT. Good morning, Mr. Chairman.

My area within our USDA task force was food and nutrition. Although our study included all areas within the Food and Nutrition Services and resulted in seven recommendations being made, I would like to discuss three of those issues this morning.

All three concern the food stamp program. These issues have been coded in our report as Ag 9, 10, and 13.

The thrifty food plan is the basis for all food stamp benefits. In its pure and simple form it provides adequate nutrition at a reason-

able price. But in that pure and simple form it would be very costly to administer. So to save on administration costs several assumptions have been built into the plan. These very assumptions, although minimizing management costs of the plan, have tended to cause, in some cases, benefits to be distributed well beyond the plan's stated requirements.

Chief among these assumptions is the thrifty food plan's definition of the average food stamp household. In its current form the plan is based on a family of four consisting of a man and woman 20 to 54 years of age, one child 6 to 8 years old, and other children 9 through 11. When this base family was determined in 1971, it reflected the average recipient household at that time.

Today's participant household characteristics, however, are very different. The average food stamp household now consists of only 2.6 individuals; more than one-half, 52 percent of all recipients, are children 19 years of age and under, and of the remaining adults 48 percent, the women outnumber the men over 2 to 1.

To allow for this changing food stamp population we recommend updating the family of four base annually by calculating the weighted average participant value and multiplying it by four. We believe this annual update will most simply and realistically reflect the subtle changes in participants from year to year and is preferable to the somewhat arbitrary current method.

Annual savings from implementing this change are over $1 billion and it would require legislative action to amend the Food Stamp Act to accomplish this.

The second recommendation I would like to discuss this morning is Ag 10 and looks at the economies of scale factors that are applied to food stamp household allotment.

The economies of scale adjustment factors are meant to allow the differences between large and small households in the per person cost and use of food. USDA has hypothesized that large households can buy and use food more economically than small households because (*a*) large households buy food in large quantities at lower unit costs; (*b*) they use food more efficiently with less spoilage and less food discarded than smaller households; and (*c*) they may be more likely to use other good food management practices because of lower per capita income frequently found in these large households.

Under the present economies of scale, if a family consists of one person, 20 percent is added to the benefit allowance; if two persons, 10 percent is added; three persons, 5 percent. If the family is made up of four persons, the plan is used as it is; five or six persons we subtract 5 percent of the benefit; and seven or more persons, 10 percent is subtracted

In researching how these factors were derived, we discovered that there was improper interpretation of the results gained from a behavioral survey done in 1965. In more recent studies, the problem of basing the economies of scale factors on behavioral survey data may be better understood. It appears that a major reason that smaller households have a greater per person expenditure for food than do larger households is food substitution.

For example, steak for hamburgers or frozen instead of canned peas; it is also shown that smaller households generally consume

larger quantities of food per person. We suggest that the economies of scale factors should be brought more in line with the actual differences in purchasing costs that occur based on family size.

These factors must reflect how people should, instead of how they actually do, spend their food stamp money. By adjusting the economies of scale factors to be in line with a 1972 study on differences in purchasing power for different family size, we expect a savings of $252 million could be achieved annually.

It should be noted that while small households lose about $8 per month by readjusting overly generous economies of scale factors, large households will actually gain approximately $13 per month, an amount to which they are currently being shortchanged.

The last recommendation I would like to discuss is a recommendation to eliminate the overlap of the school lunch benefit.

There exists today approximately $1.7 billion in overlap of benefits for children who participate in both the school lunch program and the food stamp program. Since 97 percent of the national student enrollment is in schools participating in the school lunch program, all 7.7 million food stamp students would be receiving free lunches through the school while also receiving food stamp benefits for that same lunch.

Previous legislative attempts to eliminate overlap with the school lunch program have dealt with subtracting the food stamp value for the five meals per week or approximately $10 per child.

It was protested that this method did not vary across income categories and was much more impacting to the lower income group. We believe our recommendation would reflect those needs fairly as well as reduce the duplication payment.

This would be done by including the school lunch benefit as income when determining food stamp eligibility and bonus value. Current food stamp calculation laws do not account for any benefits of other Food and Nutrition Service programs when determining the stamp entitlement value. Yet all are supplying nutritional assistance in reaching the minimum daily requirements. It is ironic that practically every other type of entitlement benefit is included as income on food stamp applications.

For example, aid to families with dependent children, social security, supplemental security income, general or public assistance, veteran's benefits, pensions, retirement income, unemployment or workmen's compensation, and child support payments all are included as unearned income. Yet the entitlements that FNS administers are not included.

The formula for the food stamp benefit assumes that 30 percent of a household's net income should be allocated for food. If that 30 percent is not adequate to feed the household, according to the thrifty food plan, the difference is made up with food stamps.

Since we are proposing to increase the net income amount, the entitlement value would be lowered by 30 percent of that amount. Thus, this recommendation would have a savings of $521 million annually.

In searching for the fairest means of reducing costs, eliminating duplication should be one of the first areas examined. Recipients will not be victimized, but rather brought in line with the overall nutrition goals guaranteeing health and well being. Since the Food

Stamp Act states that income must be in the form of money payable directly to a household, a legislative amendment to this act is necessary to implement this recommendation.

The three recommendations discussed this morning total $1.8 billion in annual savings and would represent an 11-percent reduction in the FNS budget.

The President's private sector survey understands the importance of these programs and also appreciates the success these programs have had in our fight against hunger in America. However, we have seen this morning where overpayments in the form of duplicate and excess benefits have crept into the system.

We believe the changes we have proposed in the administration of those benefits will go a long way toward bringing thse programs back in a position of matching the proper benefit to the proper need

The CHAIRMAN. Mr. Knott, as you know, you have touched on something that has been of interest to me. Now, I want to walk you back through it to be sure that I understand, and I want Mr. Boney to come over here and help me understand exactly what it is you are proposing.

Now, my effort to eliminate this duplication—and you referred to it—was by subtracting the food stamp value; now, what precisely is it that you would do in lieu of that?

Mr. KNOTT. Rather than actually go after the entire overlap, which works out to about—school lunch is about $2 a day or $10 a week per child, and subtracting that exactly from the food stamp benefits, what we are saying is count that $2 a day from the free lunch at the school as income in performing the calculations to come up with the food stamp benefit.

Based on that, you really reduce the duplication by 30 percent, which is based on the food stamp application rules.

The CHAIRMAN. I see.

Mr. KNOTT. So you do not go after all the $1.7 billion, but you pick up $520 million annually.

The CHAIRMAN. Annually?

Mr. KNOTT. Annually.

The CHAIRMAN. How do you explain the discrepency between our figures and theirs, Tom? How much are you talking about saving annually, $1.8 billion?

Mr. KNOTT. $521 million annually.

The CHAIRMAN. No, no. What is the total cost of the overlap now?

Mr. KNOTT. We found the overlap to be $1.7 billion.

Mr. BONEY. Per year?

Mr. KNOTT. Well, I believe per year, yes.

The CHAIRMAN. We certainly underestimated it on this committee. Now, you understand what he is saying, Tom. Do you have any comment on it?

Mr. BONEY. I think they made some similar recommendations for the other nutrition programs as well.

Mr. COX. That is correct.

Senator ZORINSKY. What figure now are you using for the cost of that school lunch?

Mr. Cox. We used a figure that we found within the Food and Nutrition Service and the $1.7 billion that we are talking about was the actual benefit that was——

Senator ZORINSKY. Right. But I am talking about how much you are going to deduct now.

Mr. Cox. Thirty percent.

Senator ZORINSKY. How much?

Mr. Cox. Thirty percent.

Senator ZORINSKY. Thirty percent of?

Mr. Cox. The entire——

Senator ZORINSKY. Allotment?

Mr. Cox. Yes, allotment. If you add it to income, you see, you use——

Senator ZORINSKY. How much are you adding to income?

Mr. Cox. That would be the total price.

Mr. KNOTT. The total price, the $1.7 billion, that is correct or whatever it is for that individual family. It is approximately $10 per week per child, which would mean a reduction in food stamp benefits of $3.

The CHAIRMAN. Tom, I want you to get with him and get his data base.

Senator ZORINSKY. $2 per meal is what you are saying?

Mr. KNOTT. That is correct. The meal in the school lunch, the free meal in the—the 100-percent subsidized meal in the school lunch program, we believe is right around $2. That is correct.

The CHAIRMAN. Thank you very much. Now, Mr. Marsh.

STATEMENT OF PAUL E. MARSH, VICE PRESIDENT, THE NORTHERN TRUST CO., CHICAGO, ILL.

Mr. MARSH. Mr. Chairman and members of the Senate Agriculture Committee, thank you for the opportunity to present testimony in support of recommendations put forth by myself and other members of the task force.

I will focus on three agencies within USDA, the Soil Conservation Service or SCS, and the Agricultural Stabilization and Conservation Service or ASCS. These two agencies are unique because they deliver a service directly to farm families at the local level. Additionally, I will address two issues affecting the Foreign Agriculture Service.

At this point I would like to gratefully acknowledge the cooperation of these agencies throughout our work. We found them to be very professional and dedicated to their missions.

As a former operator and now an owner of a central Indiana family farm, I have had firsthand experience with ASCS and SCS on the county level. As a professional farm manager, I worked directly with these agencies in nearly half the States represented by members of this committee, and I know how vital these local services are to the farm family.

Our group made 29 recommendations that present opportunities for improved cost effectiveness and management efficiency. Although several of the recommendations of the task force have been effected by USDA administrative power alone, only those recom-

mendations requiring congressional action will be highlighted today.

The first budget reduction can be realized by changing the funding responsibility from the Federal to the local level for the delivery of soil conservation technical assistance to farms and ranches. Currently this is a Federal obligation of nearly $82 million annually for local personnel positions below the level of district conservationist. Our proposal calls for legislation that will gradually change this funding responsibility to the local level.

We believe this best can be achieved through existing local soil and water conservation districts or SWCD's, which already fund a significant portion of conservation support staff at the local level.

Currently, SWCD's receive two-thirds of their funding from combined State and local moneys. Even if the local technical assistance were totally financed by property taxes, less than 8 cents per acre would be levied annually to cover this local service.

By shifting this responsibility to the local soil and water conservation districts, we would see more control and efficiency in the local use of personnel. With this legislative change we would eventually experience annual savings of $82 million a year.

A second area of savings is the reformation of the county ASCS offices to achieve improved efficiency and reduced operational costs. Recommendation 35-1 urges the consolidation of approximately a fourth of the smallest ASCS offices throughout the country into an adjoining office usually located in the next county.

These small offices typically have a workload volume to justify only one to three persons. Increased operating efficiency through specialization and automation would occur from the consolidation and result in a savings of more than $11 million annually.

Although some structural changes have occurred over the years, the precedent for the current ASCS office structure dates back to legislation that is nearly 50 years old. Consolidation was not considered in past decades due to the problems with rural roads, communications systems and a large number of farmers being served.

Transportation systems and communications capabilities have obviously improved and the number of farmers has decreased dramatically. We believe the primary argument against consolidation, that being a new location would be too far for farmers to drive, is no longer valid.

To test this hypothesis we arranged for a professional telephone survey of 99 randomly selected agriculture producers throughout the country. We concluded that farmers were in fact already traveling a greater distance than their local offices during the normal course of their business. Since much of the business can be conducted by telephone today and the farmer needs to visit the office typically only 2 to 4 times per year, the added travel burden does not appear onerous. The cost savings would be significant.

ASCS has plans to install computers in each local office by the end of 1987. After reviewing the results of pilot projects for computerization of local offices, we concluded that the benefits to automation were so significant that the implementation plan should be accelerated by 2 full years.

We recommend that this committee support ASCS's efforts to install computers in local offices and support legislation that will

give the Secretary of Agriculture authority to achieve operating efficiencies from consolidation of selected small offices.

USDA personnel are still laboring with old fashioned operating systems while the farm family it serves is already using modern personal computers. This schism in technology between the Government and the service recipient is costing taxpayers more than $19 million a year.

The third area of recommendations for improved cost effectiveness pertains to the National Cooperative Soil Survey Program in SCS. A user fee to fund costs necessary to remove serious bottlenecks and accelerate the soil survey program is recommended. A modern soil survey is the basis for all sound land use planning and management decisions. Without a knowledge of the actual soil characteristics on any given farm, such as the soil type, its texture, slope and erosion potential, farmers and conservationists cannot begin to make a viable and cost-effective plan to prevent one of the more serious threats to U.S. agriculture, soil erosion.

The soil survey is the best source of that information. It is the first and one of the most important tools used in the prevention of erosion of our Nation's soils.

The Soil Conservation Service has been conducting these soil surveys for more than 50 years and today more than 30 percent of the United States has not been surveyed, and additionally, 25 percent of the surveys completed years ago are considered old and should be updated.

When our study was conducted in 1982, SCS was publishing these reports; an example of this is here, at the rate of 113 per year. At that rate it would take another 17 years to complete the program nationwide. I am sad to report that according to current estimates the program will not be completed for another 25 years.

We cannot as a nation afford the risk of soil erosion for that period simply due to the lack of information. We found serious bottlenecks and misallocations of resources were causing the delays in the complex process of producing a soil survey report.

According to SCS guidelines, a survey should take 8 to 10 years to complete. Unfortunately, we found that it takes much, much longer. It is a travesty that farmers and other governmental, educational, and private sector users of these reports must wait on average nearly 4 years to receive a published report from the time that the field mapping has been completed.

The field mapping phase is the most difficult and time consuming and represents 80 percent of the time and expense in the whole process. The delay after field mapping has been as long as 8½ years in some cases.

These bottlenecks further prevent SCS from fully utilizing the approximately 20 percent cost sharing that is contributed by State and local sources. For example, in Illinois the State soil scientist received commitments from State and local cost-sharing contributors to begin 13 new soil surveys. Some of these were to encompass areas of highly erodible soils. However, due to bottlenecks in the present production system, only three new surveys could be scheduled.

Our task force analyzed this entire process in detail and made 11 recommendations that, when fully implemented, would save an es-

timated $300 million in 1982 costs over the life of the program. The recommendations would reduce the total elapsed time for completing a soil survey report from about 10 years to about 5 years and would put the information in the farmer's hand much quicker.

Cost savings for taxpayers in the form of reduced soil erosion resulting from the information contained in these reports was incalculable. The added cost of food for consumers caused by soil erosion is also impossible to guess. However, these hidden costs are more likely to have 9 zeros after them than 6 or 3 zeros.

Although significant savings over the life of the National Cooperative Soil Survey Program are possible, we do not advocate a reduction in funding at this time. In fact, in order to achieve long term results an initial investment of approximately $7 million would be necessary to eliminate the bottlenecks in the system today.

To fund these expenditures and accelerate production of soil surveys, we recommend legislation that would authorize the Secretary of Agriculture to charge a reasonable user fee for the soil survey reports. Since State and local sources now contribute roughly 20 percent of the cost of the soil survey, a revenue sharing agreement should be provided.

By doing so more incentive is created to disseminate the survey reports on the part of State and local agencies. Although the technical reliability of a survey report is very seldom questioned by users, we believe that a charge for this report would crystalize the perception among users that you get what you pay for.

Two recommendations suggest changes in the ASCS county and community committee election process that would save $7.8 million a year. Currently there is legislation before the Congress that encompasses most of these recommendations and we urge swift passage of this legislation.

In the area of export promotion of commodities it was the subject of great scrutiny and resulted in 26 recommendations. It is difficult to summarize them, given the fact that they cover a wide and diverse range of activities of the Foreign Agriculture Service. I will, therefore, touch briefly on the most important ones which can be enacted by legislation.

In the area of financing costs for export promotion, USDA could effectively reduce the financing cost to the foreign buyers of our commodities by approximately 2 percentage points by changing the regulations of existing guarantee export programs.

These lower costs would be achieved by using more effectively the guarantees which are already being granted by the Federal Government. In 1982 the interest rate subsidies were estimated to be approximately $262 million for a 3-year period. By obtaining an opinion from the Attorney General or by passing legislation that would define the obligations of the Commodity Credit Corporation to include contingent liabilities, the export market expansion impact of interest rate subsidies could be doubled.

Public Law 480 is a food aid program designed to help less fortunate countries feed their people. Current regulations require half of all exports made under the Public Law 480 program be made on privately owned U.S.-flag commercial vessels. This requirement alone costs more than $407 million over a 3-year period.

The original intention of this requirement was to provide incentives for the private sector to provide the United States with a modern merchant marine capable of supporting a war effort should the need arise.

In fact, the U.S.-flag dry bulk carrier fleet that is used for commodity shipment consists of 20 vessels which average 20 years in age. Cargo preference requirements are a costly failure and should be eliminated.

In conclusion, we have addressed several improvements requiring legislative authority and budgetary support for the delivery of certain USDA services to local farm and ranch families as well as improvement in the Foreign Agriculture Service.

Although many of our recommendations require administrative action within USDA, your support of these legislative recommendations would produce significant savings in the ASCS and Soil Conservation Service budgets and $670 million over 3 years in the area of export promotion expenses.

We believe they represent sound, commonsense ideas to improve the delivery of services to farm families in a way that will give more value to taxpayers.

The CHAIRMAN. Mr. Marsh, thank you very much. I have been marking up your testimony as you went. I am going to have to ask you to talk me through the last paragraph on the next to the last page.

Now, this business of exports is something I have been vitally interested in, as has Senator Huddleston, because that is the name of the game in terms of this economy of ours. If the free enterprise system means anything, it means productivity. But if we cannot sell it, we are in trouble. And we are in trouble in that regard because of a lot of things.

So walk me through that paragraph again. Tell me exactly what you are proposing.

Mr. MARSH. Senator, this is not an area in which I am an expert, but I will try to relate to you my understanding of it.

The CHAIRMAN. OK.

Mr. MARSH. Currently, the way the language reads on the instruments for these interest rate buy-downs is that the Commodity Credit Corporation has an obligation to stand behind the current liability, but there is a question of CCC's obligation toward any contingent liabilities. Because there is uncertainty about whether or not contingent liabilities are guaranteed by CCC, the marketplace imputes a premium on this additional risk.

Therefore, the money spent only has about half the effect it could have if this risk were eliminated. For example if USDA is trying to subsidize a rate, say, from 14 percent to 10 percent; that is, the foreign country is willing to buy our commodities at a 10-percent interest rate, but the current rate in the market is 14 percent, the Federal Government must pay that differential in this interest rate subsidy. Under our proposal the cost would be 2 percent subsidy versus 4 percent in this example.

The CHAIRMAN. Are you familiar with blended credit provisions on this? They are already doing that to some extent.

Mr. MARSH. Well, this, I believe, is the same concept and this is my understanding of it and it is not—again, I will tell you I am not expert in it.

But the point I want to make is that if the question of contingent liabilities of CCC were clarified in the minds of the financial market, they would not impute this premium on financing to these foreign countries.

The CHAIRMAN. OK.

Mr. MARSH. And you can effectively leverage or double the effect of the money that you are spending for this program by doing so.

Mr. COX. This instrument now is not what we call negotiable; it has to be approved and backed through where if it were negotiable, meaning you could transfer it, the discount would not be that great.

The CHAIRMAN. Excuse me just a minute. I want Bob Franks. He is here. Are you listening to this?

Mr. FRANKS. Yes, sir.

The CHAIRMAN. Do you understand what we are talking about?

Mr. FRANKS. I am not sure I understand, Senator.

The CHAIRMAN. Well, this is a very vital point for a lot of commodities, one in particular that we have.

When we conclude here, will you get with these folks and discuss this and let us see what we can do with respect to getting an interpretation or legislation or both.

Mr. FRANKS. Yes, sir.

Senator HUDDLESTON. May I ask Mr. Marsh a question?

The CHAIRMAN. Sure, sure.

Senator HUDDLESTON. Did you consider whether we should lengthen the payback period on concessional sales that we make. We were talking about interest concessions and price concessions. We have not given much thought to whether we should afford a longer payback period to our potential customers and whether that would have a substantial effect on our ability to sell commodities.

Most sales, I think, have a 3-year payback period. Would a 10-year pay back be helpful to us?

Mr. MARSH. I cannot answer that question, Senator. I was not part of the group that analyzed this particular issue. Maybe Mr. Cox might have some comments there.

Mr. COX. Well, the one that was not able to show today did do the work and is putting together a lot of these guaranteed loans. So he is very familiar with it and I am sure he will be glad to spend time with your staff to go through this.

The CHAIRMAN. Well, let us have this understanding; I hate to impose on you, but we would keep you here all day if we ask you all the questions I want to. Could we have an agreement that we may file some written questions with you and you respond in writing so that they can be made not only available to us, but a part of the record. Very well.

Mr. COX. I did have, Senator, comments on the other two sections if you want.

The CHAIRMAN. Good. All right.

Mr. COX. And some of these are sensitive.

The CHAIRMAN. Well, most of them are.

Senator HUDDLESTON. Each of them will be sensitive to someone.

The CHAIRMAN. That is right. When you start tampering with the trough you are in trouble.

Mr. COX. I am going to comment on the Farmers Home Administration. We had several issues in there and one of them was that Farmers Home loan obligations and their related costs should be reduced by implementing a policy of matching each new loan refinanced from the private sector with the graduation of existing Farmers Home loans. It is anticipated that $4.6 billion in budgeted new lending could be offset by a graduation of existing Farmers Home loans.

By eliminating Government-financed subsidies on these graduated loans interest expense would be reduced by $141 million and administrative costs of $91 million could be avoided for a savings of $768 million over the 3-year period.

Now, a great deal of evidence to us suggests that significant potential exists for graduations despite current economic and industry conditions. The States of Oregon and South Carolina have been notable exceptions to the general lack of success of graduations. These States have achieved a 20- to 30-percent rate of graduation for their outstanding portfolios, thus confirming the fact that significant potential exists.

Surveys and interviews with private sector lenders revealed that Farmers Home has often been used as an easy bailout for trouble loans. Private lenders will tend to transfer as many of these borrowers to Farmers Home as possible without sharing any responsibility for assistance in difficult economic times unless specific effort is made toward graduating eligible loans. Private sector abuses of Farmers Home programs substantiate the need for a mechanism to insure that Farmers Home use for only truly needy borrowers.

Declining loan/deposit ratios of rural banks suggests that good loans will be well received by the private sector if Farmers Home aggressively initiates action.

Curtailed growth of outstanding loans will allow administrative cost savings: For example, offsetting 13,900 budgeted new loans with a like number of graduations would save $91 million per year, assuming—using Department of Budget assumptions—50 average staff hours per loan at $20 per hour for average staff cost, resulting in an annual cost per loan of $1,000 or $114 million for the 13,900 new loans budgeted. Processing costs of $200 per graduation are assumed or $23 million for 113,900 loans graduated. Net administrative cost savings of $91 million would be the result.

Then another recommendation was to move from direct lending to fixed amount guarantees and establish a certified lending program. The Farmers Home Administration can limit growth in Government loan obligation, reduce delinquencies, control contingent liabilities and save loan processing costs by moving from direct lending to loan guarantees, establishing a certified lender program, and using fixed amounts rather than percentage guarantees.

In addition to an estimated $475 million in increased principal and interest payments, $68 million in loan processing savings could be realized while curtailing Government loan liability by $20 million; also $48 million in opportunity cost savings are possible. These savings equal $451 million over 3 years.

In conclusion, there is abundant evidence that Farmers Home has grown too much and too quickly over the last 5 years, yielding a portfolio with unacceptable delinquencies, plus a potential for substantial loan losses and unrealized repayments in the near future.

Clear and enforcible policies must therefore be instituted to provide mechanisms and incentives for increased private sector assumptions of rural credit needs. We recommend that Farmers Home provide credit assistance predominantly in the form of guarantees through certified private lenders rather than direct loans and with units of dollar amounts rather than percentage guarantees with a graduated guarantee fee structure.

Loan guarantees should be reduced from 90 to 75 percent to provide private lenders more risk exposure and therefore more incentive to make quality loans.

Note that the above savings exclude revenue from guaranteed fees as well as the expected reduction in delinquencies of any increase in loans.

Now, we have one other recommendation that maybe is out of our field but we feel strongly about it. Transfer human nutrition research programs to Health and Human Services. Selected Agriculture Research Service human nutrition research programs should be transferred to the Department of Health and Human Services. Both the ARS and HHS will be in a better position to fulfill their respective missions and an estimated $15 million reduction in the ARS budget could be effective now. This would be $99 million over 3 years when all implementation is complete.

Nine Federal departments and agencies support human nutrition research with HHS being by far the largest contributor. In 1979 expenditures totaled $195 million.

The majority of the U.S. Department of Agriculture's human nutrition research activities are conducted in five major ARS centers with a combined 1983 appropriation of $24 million. The ARS program appears to duplicate much larger and better funded nutrition research programs conducted by the NIH of HHS.

Nutrition research is supported by 11 institutes and two divisions at NIH. The program funds focus nutrition research on human subjects from the prenatal stage to the elderly. NIH has 79 general clinical centers capable of performing human nutrition studies. Our conclusion is much of the human nutrition research currently funded and controlled by ARS is inconsistent with its primary mission of fundamental and applied research to provide the means to solve the technical food and agricultural problems, to assure perpetually adequate supply of high quality food and fiber. The work conducted at the five human nutrition centers, particularly that involving human subjects is an inappropriate activity for ARS.

Moreover, if the planned expansion of program materializes, there will be a call for greater increased expenditures in staff, facilities and management talent and time.

Finally, the financial resources available to ARS for its total program will be severely strained in accommodating to the rapidly growing demands from the human nutrition sector of the agency. The increased demands for this activity may come at a great cost to other programs of higher priority in the overall ARS mission.

And I think you know that when you start dealing with human subjects in that way ARS just is not equipped like NIH to do it.

The last area that I will discuss is the Rural Electric Administration. The issue here is that we think the Government should begin extricating itself from loans for the generation and transmission of power by reducing annual loan guarantees by $1.7 billion by fiscal year 1986. And we scheduled this out.

This represents no budget cost savings but it does represent a first step in reducing the dependence of Rural Electric Administration borrowers on Federal financing. A loan guarantee fee of $3 million should be put into effect as an offset against agency obligation. The total 3-year savings are only $10 million.

The REA was established in 1936 to provide loans to eligible cooperative borrowers and for the purpose of extending electric service to unserved rural areas. The REA moved gradually into making loans to power supply cooperatives in addition to power distribution borrowers. Prior to 1973 the annual amount of long-term financing REA provided to power supply buyers in a single year had not exceeded $200 million. Since 1973 the amount of annual loan guarantees extended increased rapidly, doubling the cumulative amount outstanding from $13.5 billion in 1978 to $31.6 billion in 1980.

From an overall Government perspective, the sheer magnitude of these guarantees, some 20 percent of the Federal Financing Board's off-budget lending at one point, has contributed to the Government borrowing in the credit market, exposed interest rates to upward pressures, and affected debt management policy.

REA's off-budget status and that of other credit lenders has made control over the growth of Federal credit a most difficult task. So we recommend the REA annual loan guarantee level for electric borrowers should be reduced by 40 percent over the next 4 years from $4.7 billion in 1983 to a target of $3 billion in 1986.

Power supply borrowers should be required to seek supplemental financing from non-REA sources. A 10-percent outside financing would be appropriate as a general rule, but the additional amounts could be required of larger suppliers, some of which are no longer tax exempt organizations. A credit elsewhere test should be made prior to and a part of the overall REA program guarantee. REA should strengthen its loan guarantee criteria by compelling borrowers to go through uniform forecasting exercise to determine whether power supplies can be obtained elsewhere rather than through new or expanded construction.

And then REA should charge a loan guarantee fee for doing this work.

Our last one is reduce Government financing of cooperatives. The Rural Electric Administration should expand the use of outside financing for electric distribution cooperatives by extending supplemental lending ratios to 50–50, increasing insured loan rates to 8 percent and strengthening borrower times interest earned ratios, known as TIER, and equity ratios. By charging a loan fee and by reducing REA borrowings from the Treasury, direct savings of $10 million and a $30 million cost avoidance will occur in the first year and $132 million over the 3 years. A balanced REA rural electric and telephone revolving fund and repayment of the

$7.8 billion in notes owed the Treasury at the beginning of 1993 will result in a cost avoidance of that amount after 1993.

We conclude that non-REA funding for distribution borrowers is available and can be expanded from borrowers' own sources, provided that REA and Congress rearch this policy determination. And it is a congressional policy.

By increasing lending ratios from 70–30 to 50–50, the the Cooperative Finance Corporation and its affiliated cooperative membership will have the encouragement needed to expand CFC's equity base and to improve the financial position of members.

So, too, REA interest rates on insured loans should be increased to 8 percent and allowed to float thereafter, depending on the steps necessary to achieve a revolving fund loan balance. The condition of the revolving fund cannot be ignored by REA, NRECA, and the Congress. Necessary corrections should be made and loan forgiveness should be avoided.

The TIER's and the equity ratios of REA borrowers should be strengthened over time and appropriate sanctions applied to noncompliance with loan agreements. CFC needs such strengthening to expand its capital base and to gain access to financial markets.

REA should be more aggressive in promoting mergers and consolidating among borrowers. As lending ratios increase and as non-REA lending grows, the entire management focus of REA should change.

A new orientation suggests a more traditional lender-borrower relationship than the paternalistic relationship that now prevails between REA and its cooperative constituency.

Thank you.

The CHAIRMAN. Senator Huddleston?

Senator HUDDLESTON. I have no questions.

The CHAIRMAN. At one point there you did stop preaching and start meddling. [Laughter.]

There is a small turf battle in terms of one of your recommendations. You might want to look at the makeup of the relevant committees in Congress, which might make some difference.

Now, while the four of you plus Mr. Grace were testifying I was looking at a summary list of your recommendations for USDA. It seems to me they are broken down into three categories: Savings which can be achieved by existing authority in each agency; two, by the authority of the President by directive to the agencies; and by specific acts of Congress. I guess the question I'm getting at is to what extent are those three things, or the two existing authorities, being carried out?

That is to the say the existing authority and the President's.

Mr. Cox. We would have to say, Senator, that we do not know because we were a group asked to come in and do a job. All of our people have jobs. They go back and work. And one of our members is not here today because his boss thought he'd contributed enough time. So we do not follow the Department's activities. Of course, you can get that any day you want.

From our impression, we did go through there yesterday and talked to some of them—our impression is the Department, as during the study, is very cooperative, very interested, and is following the study as far as we can tell.

Mr. DONOGHUE. We are aware that that within the Department they have set up a structure, a rather rigid structure, and they are requiring response from the constituent agencies. So I think they are looking at these very seriously. As he said, we really haven't been here in some time to really know what has taken place.

Mr. COX. The other one is, we should give them credit, many of the ideas in here we picked off of people in the the Department who had things to suggest.

The CHAIRMAN. I thought I recognized a number of them. You fellows and everybody else connected with this have done a fine service for the country. Now, whether those of us in the Government have sense enough to study these things and implement the possible remains to be seen. But that's not your responsibility, except I want to repeat to you what I said earlier, that if we fail to get this information to the people of this country, these options, and really a certain amount of your time, have been wasted. What we have is a representative democracy and for years the people have been led down the primrose path into believing there's no tomorrow. And all of a sudden tomorrow is here.

Now there is a great debate about who is causing the deficits and the trillion dollar-plus national debt and all the rest of it. And you throw figures like that at the people of this country and their eyes glaze over. They do not understand it, and I am not sure too many people in the political arena are demonstrating that they understand very much about it. But that is another subject for another day.

Plus you have the usual amount of demagoguery when there is no understanding. Down in my State we have had such declarations as FmHA foreclosures are at an all-time high. And I said, mercy, let me check into that. And what was it, George, the total number in North Carolina last year?

Mr. DUNLOP. Thirty-two.

The CHAIRMAN. Thirty-two in the State of North Carolina for 1 year.

Mr. DUNLOP. I think it had decreased by 38 percent from the previous year.

The CHAIRMAN. You see, and yet people pick up the paper and hear this promising young fellow, and he promises a lot, make that statement. They assume it is true. This is what we have to deal with in trying to make judgments here. Of course, we have a diversity of opinion on this committee, and as chairman I try to make sure everybody gets a chance to be heard, his view and her views. We have Paula Hawkins on this committee now. And she is delightful to listen to.

Mr. DONOGHUE. To us, the actual savings are less important than the substance of the recommendations. I think that it is like somebody referred to a Chinese proverb before, and I think it is Confucius who said a journey of 1,000 miles starts with the first step. Everything in here is not perfect. But certainly there are things that can be done.

The CHAIRMAN. Well, there is no question about that. And if we do not start, then we are going to end up much like Brazil, which just not many years ago was predicted to have the most dynamic

economy imaginable in the year 2000, and now the interest rate down there on loans is something like 165 percent.

This is the kind of thing we are looking at if we do not do our job here. I, for one, am very grateful to you and all the others who devoted so much of your time.

By, the way, young man, may I ask you how old you are?

Mr. MARSH. Me?

The CHAIRMAN. You.

Mr. MARSH. I am 34 years old.

The CHAIRMAN. Gee whiz.

Mr. KNOTTS. I have him beat by 2 years.

The CHAIRMAN. Which way. You are 32? For goodness sake. Well, I think that is great.

Mr. COX. Let me make one comment in that area.

The CHAIRMAN. Sure. Yes, sir.

Mr. COX. In the committee, just to give you—I said there were 30 people from 24 companies. We had 5 with Ph. D.'s, 17 with master's degrees. Five of them had farms or ranches. And the average age was under 40. It was the best group that I ever supervised in my life.

The CHAIRMAN. Well——

Senator HUDDLESTON. Mr. Chairman, I am sorry I was not able to be here when Mr. Grace was here. I have a statement to put in the record.[1] I also want to commend the task force. They have performed a valuable public service to the country and to the people.

I hope that we can implement a number of the suggestions that you have made. We have to deal, of course, in the political arena. I know no one who is more interested than our chairman in efficiency in Government and in finding ways to cut costs that are not necessary.

I think we all want to do that. Hopefully we can reach a consensus on a number of these recommendations and then proceed to put them into effect. As you have pointed out, we just simply have to reverse the trend toward ever-increasing Government expenditures.

The CHAIRMAN. I thoroughly agree. And you young fellows have invested in your future. You have also invested in my present. I do not know how much future I have. But in any case, seriously, it is people like you who are willing to sacrifice—and it has been a sacrifice for you to spend the time that you have—who really help our country, and I am grateful to you.

And do not let the abuse bother you. If you get despondent, come around and see me and I will let you look at my clippings. [Laughter.]

Well, thank you very much. We stand adjourned.

[Whereupon, at 11:15 a.m., the committee adjourned, subject to call of the Chair.]

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[1] See p. 35 for the prepared statement of Senator Huddleston.

APPENDIX

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

It is with great pleasure that we welcome today Mr. J. Peter Grace, Chairman of the President's Private Sector Survey on Cost Control—better known, in honor of its chairman, as the "Grace Commission", as well as some of the individuals who worked on the recommendations regarding the Agriculture Department.

Members of the commission from a broad range of business backgrounds served at the request of President Reagan and Mr. Grace. The entire expense of this effort was borne by the private sector, at no cost to taxpayers—a practice much to be commended.

The Grace Commission made recommendations that encompassed almost every department and agency of the Federal government. "Task forces" were organized for examining specific departments of government as well as cross-cutting functions of government such as personnel, data processing, and procurement. Today's hearing will focus specifically on the recommendations of the Task Force on the Department of Agriculture.

If all of the proposals by all of the task forces were implemented, government-wide savings of approximately $100 billion annually could be achieved. For the Department of Agriculture alone, savings of up to $26 billion over the next 3 years would accrue. Obviously, these estimates were made using the best estimates available to the commission. They did not have the advantage, as we do, of having the Congressional Budget Office to estimate savings. Nevertheless, if even half of the savings estimated by the commission could be achieved, that would be a major accomplishment, with a significant impact on government spending and the deficit.

In order to make available the recommendations of the Task Force on the Department of Agriculture, the Committee on Agriculture, Nutrition, and Forestry published the draft report of the Task Force in July, 1983. I understand that the final recommendations were substantially unchanged.

The Grace Commission has served an indispensable purpose in analyzing the Federal government from a business management perspective. I'm sure that many of their recommendations can and will be implemented, resulting in more efficient and economical government. Needless to say, many of the recommendations must be carefully considered by the Congress and, indeed, many would require Congressional action in order to be implemented.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, I am pleased that we are holding this hearing on the recommendations relating to the Department of Agriculture developed by the President's private sector survey on cost control.

The Executive order establishing the survey directed the survey members to identify opportunities for increased efficiency and reduced cost in the operation of the Federal Government. The survey was carried out through 36 Task Forces, 22 of which were assigned to study specific departments and agencies.

The members of the Task Forces served on a voluntary basis at no cost to the taxpayers. I would like to express my appreciation to each of them, as well as to Mr. Grace and his staff, for their contributions of time and energy to this important undertaking.

All of the Task Forces have now completed their studies and issued reports setting out their findings and recommendations. The report on the Department of Agriculture contains some 58 specific recommendations for ways to reduce costs and enhance revenues in the Department. Certain of the recommendations also contain policy alternatives with respect to the programs under review.

The Agriculture Task Force recommendations, if adopted, have the potential for reducing Government costs by billions of dollars. In addition, low-income standards and benefits task force, which surveyed governmental functions involving more than one agency, has also identified possible areas of budget savings in the Department of Agriculture.

There is already some debate as to whether the cost reductions and revenue increases described by the survey can—or should—be achieved. I, for one, am not prepared, at this point, to endorse all of the survey's recommendations. Nonetheless, I am pleased that the survey has sparked so much interest.

While the assumptions and recommendations of the survey should be carefully examined, I do not believe that we should spend our time just looking for ways to discredit the survey. We must remember that the survey was a massive undertaking conducted with limited resources and time restraints. We should not expect the conclusions and recommendations of the survey, in each and every case, to be the complete or final answer to the problems identified.

Rather, we should take advantage of the opportunity presented by the survey to make an effort to improve efficiency in the Federal Government and eliminate waste and duplication in public services. At this time when the Federal budget deficit approaches $200 billion annually, both Congress and the President have the serious responsibility of undertaking such an effort.

I encourage the President to carefully study the recommendations of the agricultural task force which require only administrative action to be implemented, and I urge the committee to thoroughly review the areas where the task force believes administrative or legislative action is required. In this regard, I look forward to the testimony of today's witnesses.

STATEMENT OF J. PETER GRACE, CHAIRMAN, EXECUTIVE COMMITTEE, PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

Mr. Chairman, I am pleased to accept your invitation to address the work of the President's Private Sector Survey on Cost Control (PPSS) and to identify some of the major recommendations of our Agriculture Task Force.

My name is J. Peter Grace and I was the Chairman of the PPSS and I am Chairman and Chief Executive Officer of W. R. Grace & Co. With me is Mr. J. P. Bolduc, who was the Chief Operating Officer of the Survey and who is a Senior Vice President of W. R. Grace & Co., Cliff Cox, who was the Project Manager for the Agriculture Task Force and three of his associates on the Task Force, Richard Donoghue, Gregory Knott and Paul Marsh.

I'll be discussing today those PPSS recommendations which I believe will be of particular interest to this Committee including:

Elimination of overlapping and duplicative benefits under the Food Stamp and various other nutrition programs, revision of Food Stamp benefit formulas to reflect changes in the composition of typical recipient families and other operational and procedural recommendations.

Savings—$6.7 billion over three years.

Transition from direct to guaranteed lending in Farmers Home Administration programs and greater use of the private sector to improve loan quality and payment performance.

Savings—$1.5 billion over three years.

Revision of the Forest Service's fee structure for its timber sales program and for the various recreational services which it provides.

Savings—$1.4 billion over three years.

These and other agriculture-related PPSS recommendations will be further discussed; however, I'd like to begin with an overview of PPSS' formation, organization and conclusions.

President Reagan decided in February 1982 that it would be useful to have a study of the Executive Branch of the Government by members of the private sector, and he invited me to become Chairman of this effort. He felt a survey patterned after the Private Sector Study he instituted when he was Governor of California would be useful in identifying inefficiencies, overlap and waste in the operation of the executive departments and agencies. The President is very concerned about the tremendous increase in the cost of operating the Federal Government which has gone up almost sevenfold since 1964, from $119 billion to $854 billion for 1984. I share his concern.

On June 30, 1982 the President's Executive Order was issued establishing the PPSS, and we started to organize the 161 executives who had been recruited from

the private sector into Co-Chairmen of 36 different Task Forces. Each Task Force was assigned to examine one or more of the departments or agencies in the Government or some functional area cutting across Government such as procurement and asset management. In addition, 11 special reports were prepared by the PPSS Management Office to examine areas of special interest.

In organizing this effort, the private sector was requested by the President to finance the entire survey. Accordingly, we recruited more than 2,000 volunteers from the companies of the Executive Committee members and others, and we raised $3.4 million from the private sector to pay for the central administrative expenses of the project. We created a special Foundation to handle the financing of these administrative costs. In total, the private sector incurred more than $75 million on the survey.

The 47 Task Force and Management Office Reports, consisting of over 20,000 pages of material and including 2,478 recommendations, have all been submitted to the President.

The areas of Program Waste and Inefficiency, and Systems Failures account for $312.2 billion or almost three-quarters of the $424.4 billion total savings identified in those reports, as summarized in the next chart.

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL (PPSS)

RECOMMENDED SAVINGS
OVER A 3-YEAR PERIOD
$424.4 BILLION

	($ Billions)
Program Waste (443 Recommendations)	$ 160.9
- Subsidy Program Expenditures	
- Lending Programs and Debt Collection Activities	
System Failures (1,152 Recommendations)	151.3
- The Information Gap	
- Government Finances	
Personnel Mismanagement (422 Recommendations)	90.9
- Compensation	
- Retirement Plans	
Structural Deficiencies (211 Recommendations)	12.7
- Central Financial and Administrative Management	
- Management Tenure in Key Positions	
Other Opportunities (250 Recommendations)	8.6
Total 2,478 Recommendations	$ 424.4

In reality almost all the waste and inefficiency we found in the Federal Government can be traced to systems failures and restraints put on the management of the Executive Branch by the Congress. There is hardly anything basic in the manage-

ment of Government operations that doesn't require Congressional approval, be it closing obsolete facilities, buying new computers, the wage scale on Federal construction projects, or just about anything that might result in greater efficiency including policy decisions in the VA affecting as few as three employees.

As a check on our own estimates, we employed a leading economic forecasting firm to project the Federal deficit situation with and without the PPSS recommended savings.

If fundamental changes are not made in Federal spending, as compared with the fiscal 1983 deficit of $195 billion, a deficit of over ten times that amount, $2 trillion, is projected for the year 2000, only 17 years from now.

As unbelievable as this $2 trillion may seem, it is simply the working of compound inflation and interest seen as follows:

THE POWER OF COMPOUNDING

	(1)	(2)	(3)
(1) Inflation rate (percent)		6	
(2) Interest rate (percent)		11	
(3) Combined rate (percent)		17	
	With $1 saving per year		With $100 billion saving per year
(4) Cumulative saving in 12 yrs	$32		[1] $3.2
(5) Cumulative saving in 17 yrs	$71		[1] $7.1

[1] In trillions of dollars.

The current and projected deficits are unacceptable to Congress, the Administration and the American people. However, how those deficits are to be attacked has been the subject of much debate.

The available options are simple: Reduce costs, increase taxes, or some combination of the two.

The tax burden on the average American family is already at counterproductive levels, with the underground economy now growing to an estimated $500 billion per year, costing about $100 billion in lost Federal tax revenues per year.

The size of the underground economy is understandable when one considers that median family income taxes have increased from $9 in 1948 to $2,218 in 1983, or by 246 times, while gross income has increased just 7.6 times over the same period—taxes up 32.4 times more than income.

TAXES ON THE MEDIAN INCOME FAMILY

		(1)	(2)	(3)	(4)	(5)
				Average Tax Rates On Gross Income		
		Median Family Gross Income	Median Family Taxes	Actual	Required To Balance The Budget	Percent Required To Balance The Budget Above/(Below) Actual
(1)	1948	$ 3,187	$ 9	0.3%	0.1%	(66.7)%
(2)	1958	5,087	303	6.0	6.5	8.3
(3)	1970	10,216	902	8.8	9.1	3.4
(4)	1981	21,462	2,221	10.3	12.4	20.4
(5)	1983E	24,100	2,218	9.2	15.9	72.8
(6)	1983E As Multiple Of 1948	7.6X	246.4X	30.7X	159.0X	

Imagine:

- The median family's income is up 7.6 times,
- But its taxes have risen 246.4 times.

Further, to balance the budget in 1983 would have required a 72.8% increase in the average tax rate of the median income family from 9.2% to 15.9%.

Why balance the budget on the back of the median income family? Why not tax the wealthy?

Any meaningful increases in taxes from personal income would have to come from lower and middle income families, as 90% of all personal taxable income is generated below the taxable income level of $35,000.

CAN THE DEFICIT PROBLEM BE SOLVED WITH INCREASED TAXES?

(1981)

	Taxable Income Bracket	(1) % Of Taxable Income Through Each Bracket	(2) Number Of Days Government Can Be Run If Government Takes All Remaining Income Above The Bracket As Tax
(1)	Up to $ 15,000	63.1%	206 Days
(2)	Up to 20,000	74.9	130
(3)	Up to 25,000	81.9	88
(4)	Up to 30,000	87.2	58
(5)	Up to 35,000	90.4	41
(6)	Up to 40,000	91.9	33
(7)	Up to 50,000	94.4	21
(8)	Up to 75,000	97.1	10
(9)	Up to 100,000	98.0	7
(10)	Up to 150,000	98.6	4

All taxable income not already taxed above $75,000 would run the government only 10 days.

If the Government confiscated 100% of all taxable income beyond the $75,000 tax bracket not already taxed, the additional revenue would be sufficient to run the Government for only 10 days while destroying productive enterprise.

Taxing the rich makes more sense as a campaign slogan than as a serious approach to reducing budget deficits.

That leaves reducing the cost of Government as our best bet to contain spiraling deficits and that was the purpose of PPSS—cost control.

Implementation of PPSS recommendations would save taxpayers $1,929 billion of the projected deficit in the year 2000—from $1,966 billion without PPSS recommendations to $37 billion with the Survey's recommendations.

The cumulative impact of PPSS recommendations out to the year 2000 would be $10.5 trillion, or a savings of $130,000 per taxpayer.

The different recommendations have different degrees of documentation and the savings, of course, are estimates of a planning quality rather than a budget quality. In accordance with our mandate from the President we conducted a survey, not a detailed, in-depth audit. I am, however, personally convinced that without significant changes in Federal spending patterns we will confront ruinous and freedom snuffing deficits in line with those projected.

In addition, it should be noted that our savings estimates were based on:

(a) The use of an assumed 10% inflation rate, and

(b) The use of an assumed 10% interest rate on cash accelerations.

In June 1982 when we initiated PPSS, the rate of inflation was 13.8% and the interest rate was running 14.75%

Our assumptions at that time were conservative and, unless something is done, may yet prove to be conservative estimates of future inflation and interest rates.

Our mandate was to examine the numerous operations of the Government as businessmen.

We used the same techniques and methods of analysis that businessmen use when they investigate an acquisition, particularly the acquisition of a failing business. In such cases, we try to identify the changes we would institute to make the business viable. We would try to identify waste that should be eliminated. What inefficiencies would we eliminate? What duplication or overlap would we correct? This was the approach we took in examining the Government. We did not examine major policy issues directly. For example, we did not study the merits of proposals to eliminate the Department of Energy or the Department of Education. We did not feel qualified to form an opinion on military strategy or weapons systems and, therefore, we did not study policies that were the basis of such procedures.

One might ask, as we have been, what experience businessmen have that qualifies them to examine the Federal government. Following is an array of similarities between the operations of the Government and business, with specific opportunities identified to improve operations.

WHY BUSINESS CAN ADVISE GOVERNMENT

Function/item	Federal Government	Private sector	Federal Government failures relative to private sector
(1) Lending money	$764.6 billion loans outstanding.	$1,500.0 billion loans outstanding.	HUD makes only 3 attempts to collect loans versus 24 to 36 tries in the private sector; 41 percent delinquency rate on current Federal receivables.
(2) Timberland management.	105 million acres	347 million acres	The U.S. Forest Service gave away $235 million of firewood in 1981, 24.5 percent of total commercial timber harvested.
(3) Grazing land management.	163 million acres	587 million acres	Federal grazing program collected $15 million in grazing fees while providing $41 million in services, recovering only 36.6 percent of costs.
(4) Hospital management.	177,000 beds	1,481,000 beds	VA hospital in the Bronx cost $191,300 per bed, about double the $97,400 per bed spent constructing the comparable Duke University Hospital.
(5) Nursing home management.	71,000 beds	1,029,000 beds	The VA spends $61,250 per bed to construct nursing homes—almost 4 times the $16,000 per bed cost of a major private sector nursing home operator.

WHY BUSINESS CAN ADVISE GOVERNMENT—Continued

Function/item	Federal Government	Private sector	Federal Government failures relative to private sector
(6) Automated data processing.	250,000 ADP employees	2,000,000+ ADP employees.	Half the Government's computers are so old that manufacturers no longer service them. Additional personnel expenses amount to $600 million annually.
(7) Inventory management.	$41 billion (over 99 percent in DOD).	$806 billion	Private sector inventory replenishment techniques would save the Government $4.5 billion over three years.
(8) Electric power	244.0 billion kWh	2,019.0 billion kWh	Government subsidized power, sold at one-third market rates, costs industrial users only 2.45 cents per kWh in the Northwest compared to 12.09 cents per kWh paid in San Diego for power generated by the private sector.
(9) Borrowing money	$1,381.9 billion national debt.	$420 billion corporate bonds outstanding.	Federal borrowing from the public of $135.0 billion in 1982 was 33.0 percent of the $408.7 billion raised in U.S. credit markets.
(10) R&D funding	$38.5 billion	$36.1 billion	Government R&D bureaucracy requires that Oak Ridge researchers consult 114 DOE offices for funding approval.
(11) Transportation of persons.	$5.2 billion	$20.4 billion (non-user operated transportation).	Since 1955 the Government has been prohibited from using private sector travel agents and benefitting from their expertise; a 1980 DOD plan for a professional travel service was rejected by Congress. The Government did not issue credit cards for travelers until we recommended it.
(12) Payroll	$61.8 billion civilian payroll.	$1,090.0 billion payroll	It costs the Army $4.20 to process a payroll check versus $1.00 average in the private sector.
(13) Freight handling	$5 billion	$30 billion	The Federal Government does not negotiate volume discounts on its enormous freight charges.
(14) Building maintenance.	2.6 billion square feet	10+ billion square feet	The General Services Administration employs 17 times as many people and spends almost 14 times as much on total management costs as a comparable private sector firm.
(15) Pension benefits	$19.5 billion Civil Service (CSRS).	$300 billion	Pension benefits for the CSRS are 3 times those in the private sector.
(16) Pension fund assets.	$96.1 billion Civil Service (CSRS).	$481.1 billion	CSRS rate of return in 1980 was 7.4 percent compared to 14 percent and over for a majority of private sector plans.
(17) Vehicles managed	436,338 non-military	155,900,000 motor vehicles privately and commercially owned.	Average utilization of Federal vehicles (excluding USPS) is 9,000 miles per year. However, effective utilization, per private rental firms, is considered to be 25,000 miles per year or 2.8 times Federal vehicle utilization. Failure to recondition vehicles prior to resale, as is common in the private sector, lowers the Government's resale revenues by $15.8 million over three years.
(18) Procurement	$159 billion	$2 trillion	Lack of competition or control in Federal contracts results in the Pentagon paying $91 for a 3-cent screw, etc., etc.
(19) Foreign exchange	$10 billion	$181 billion	Hedging against foreign currency changes versus other industrial countries could save the Government $438 million over three years.

Turning to the area of this Committee's specific concern, the PPSS Task Force analyzing the operations of the Agriculture Department developed recommendations which could save $12.8 billion over three years, summarized as follows:

AGRICULTURE TASK FORCE REPORT 3-YR. SAVINGS BY MAJOR CATEGORY

[In millions of dollars]

	Implementation authority		
	Agency/executive	Congressional	Total
	(1)	(2)	(3)
(1) Food and Nutrition Service	901.3	5,838.1	6,739.4
(2) Foreign and domestic commodity programs	1,539.4	357.5	1,896.9
(3) Farmers Home Administration	1,028.0	455.3	1,483.3
(4) Natural resources/Forest Service	981.6	460.9	1,442.5
(5) Science and Education Administration	479.1		479.1
(6) Agricultural Marketing Service	10.2	339.5	349.7
(7) Local USDA programs	268.3	48.7	317.0
(8) Rural Electrification Administration	3.3	132.4	135.7
(9) Total agriculture	5,211.2	7,632.4	12,843.6

Recommendations accounting for $7.6 billion or 59.4% of total savings would require Congressional action with the remaining $5.2 billion in savings attainable under Executive authority.

Under the Food and Nutrition Service (FNS), almost $4.3 billion could be saved over three years by updating the family makeup of the Thrifty Food Plan (TFP) to reflect changing demographics and by revising TFP adjustment factors to reflect differences in per-person food costs in large and small households.

Eliminating overlapping and duplicative benefits under the Food Stamp and various child nutrition programs, e.g., School Lunch, School Breakfast, Summer Food Services, could save an additional $2.3 billion over three years.

These recommendations are described in more detail in the following four issue summaries from our Agriculture Task Force Report.

AG 9: FOOD AND NUTRITION SERVICE (FNS)—UPDATE FAMILY MAKEUP FOR THRIFTY FOOD PLAN (TFP)

Three-Year Savings/Revenue Enhancements—$3.439 billion.
Percent of $12.844 Billion Total—26.8 percent.
Implementation Authority—Congressional.

Recommendations summary

1. The TFP is used as the base for computing benefit allotments for the Food Stamp Program. The plan is based on a family of four consisting of a man and woman 20–54 years of age, one child 6–8 years, and another 9–11 years. This base family reflected the average recipient household in 1971. Today's participant household characteristics, however, are very different. More than one-half (52%) of all recipients are children 19 years and under and the remaining 48 percent are adults—34 percent female and 14 percent male. In practice, benefits are distributed which are well beyond stated requirements. The largest cause of this is the continuing assumption that participating households are comprised of an outdated family of four.

2. Update the TFP annually to reflect the actual age and sex of participants at the same time cost factors are adjusted for inflation.

3. Monthly payments would be reduced from $4 to $28 depending on household size. The current monthly allotment, $75–$455, would be reduced to $71–$427. The saving for the U.S. is $79 million per month, or $948 million per year, adjusted to $1.039 billion to include other U.S. territories ($3.439 billion over three years).

AG 10: FOOD AND NUTRITION SERVICE (FNS)—THRIFTY FOOD PLAN (TFP) ECONOMIES-OF-SCALE

Three-year Savings/Revenue Enhancements—$835 million.
Percent of $12.844 Billion Total—6.5 percent.
Implementation Authority—Agency/Administration.

Recommendations summary

1. The TFP was developed by the U.S. Department of Agriculture's (USDA) Agricultural Research Service as the basis for coupon allotment for the Food Stamp Pro-

gram. Economies-of-scale adjustment factors are meant to allow for the differences between large and small households in the per-person costs and use of food.

2. The economies-of-scale adjustment factors should be brought more in line with the actual differences in purchasing costs that occur based on family size. These factors should be based on how people should, instead of how they actually do, spend their food stamp money.

3. By adjusting the economies-of-scale factors to be in line with a 1972 study on differences in purchasing power for different family sizes, a savings of $835 million over three years could be realized.

AG 13: FOOD AND NUTRITION SERVICE (FNS) ELIMINATE OVERLAP OF THE SCHOOL LUNCH BENEFIT

Three-year Savings/Revenue Enhancements—$1.724 billion.
Percent of $12.844 Billion Total—13.4 percent.
Implementation Authority—Congressional.

Recommendations summary

1. Current food stamp calculation laws do not account for any benefits of other Food and Nutrition Service (FNS) programs when determining the stamp entitlement value. All are supplying nutritional assistance in reaching minimum recommended daily allowance (RDA) requirements.

2. Include school-lunch benefits as income when determining food stamp eligibility and entitlement amounts.

3. There is approximately $1.736 billion in overlap of benefits for children who participate in both the School Lunch Program and the Food Stamp Program.

4. The formula for the food stamp benefit assumes that 30 percent of a household's net income should be allocated for food. If school lunch benefits are included as income in the Food Stamp Program, the entitlement value would be lowered by 30 percent of that amount, of $521 million. ($1.725 billion over 3 years.)

AG 14: FOOD AND NUTRITION SERVICE (FNS)—ELIMINATE OVERLAP OF CHILD NUTRITION BENEFIT

Three-Year Savings/Revenue Enhancements—$536 million.
Percent of $12.844 Billion Total—4.2 percent.
Implementation Authority—Congressional.

Recommendations summary

1. Include benefits received from the School Breakfast, Child Care Food, and the Summer Food Services Programs—which are child nutrition programs—as unearned income when determining food stamp eligibility and entitlement amounts.

2. Adding child nutrition benefits as income will increase the total income of families with children participating in these programs, and thus reduce their food stamp benefits, but will not jeopardize child nutritional needs. The food stamp benefit assumes that 30 percent of a household's net income will be allocated for food. Therefore, the additional income from other child nutrition programs will reduce food stamp costs by 30 percent. Total overlap between food stamp and other benefits is estimated to be $540 million. A 30 percent reduction in food stamp payments would yield approximately $162 million in savings, or $536 million over 3 years.

Simply reducing the cost of printing Food Stamps could save FNS $30 million over three years. By creating a $20 coupon (the largest denomination is now $10) and a $100 coupon book (versus $65 now), and eliminating the $2 coupon, coupon and book denominations would be brought more in line with consumer spending patterns.

Three-year savings of $1.9 billion include recommendations to reduce export financing costs by Federally backing Commodity Credit Corporation (CCC) guarantees, eliminate cargo preference requirements on foreign food aid and greater reliance on the private sector for freight forwarding activities.

AG–25 (pp. 118–120): Eliminate Cargo Preference Compliance for Foreign Food Aid—Under P.L. 480, the USDA buys U.S. farm commodities and sells or gives them to less fortunate foreign countries to help them feed their people. Transfers under this program are required to conform with regulations that half of all government-funded commodities be transported on U.S. flag vessels. In practice, the USDA pays the freight differential between U.S. and foreign carriers—$57/ton in 1981 and now higher—at a cost of over $100 million. Recommend exempting P.L. 480 from cargo preference requirements because it hasn't proved effective in achieving maritime policy objectives and diverts effort/funds from principal food-related objective.

Three-Year Savings/Revenue Enhancements—$357.5 million.

Implementation Authority—Congress.

AG-23 (pp. 110, 112-113): Reduce Anticipated Export Financing Costs—U.S. government is considering the implementation of an interest buy-down program to reduce financing costs of foreign importers of U.S. agricultural goods; takes the form of USDA paying a portion of interest charged by commercial banks. Recommend instead allowing commercial banks to access funds at lower government interest rates by establishing that Commodity Credit Corp. guarantees are backed by the U.S. government. This reduces buy-down cost from about 4% to 2.5–2.7%.

Three-Year Savings/Revenue Enhancements—$262.1 million.

Implementation Authority—Administration.

AG-27 (pp. 124-126): Transfer Freight Forwarding Activities to Private Sector—USDA performs foreign freight forwarding activities for World Food Program donations and International Emergency Food Reserve, and also has domestic forwarding activities. Such services are provided at no cost to users in these kinds of applications by the private sector; private firms are generally compensated by the steamship companies. Recommend terminating these USDA services.

Three-Year Savings/Revenue Enhancements—$8.2 million.

Implementation Authority—Administration.

The Farmers Home Administration (FmHA) could save $1.5 billion over three years through more efficient management of its lending programs and its outstanding loan portfolio.

For example, emphasizing the transfer (graduation) of credit-worthy borrowers from FmHA loan programs to private sector lenders could save $768 million over three years.

AG 1: FARMERS HOME ADMINISTRATION (FMHA)—PROMOTE LOAN GRADUATION FOR EACH NEW FMHA LOAN BOOKED

Three-Year Savings/Revenue Enhancements—$768 million.

Percent of $12.844 Billion Total—6.0 percent.

Implementation Authority—Agency/Administration.

Recommendations summary

1. FmHA loans are made to eligible borrowers who are unable to obtain suitable credit elsewhere, so that they may continue their operations and return (graduate) to private sources of credit as soon as possible. Very limited graduation has taken place to date. This has contributed, in part, to the tremendous growth experienced by the agency. FmHA loans have increased from $6.5 billion in 1970 to $58 billion in 1982.

2. Because insufficient incentives currently exist for graduating FmHA loans, the FmHA Administrator should declare an Agency-wide policy of matching each new loan booked with the graduation of an existing FmHA loan. This would be on a "loan-for-loan" basis, regardless of dollar amount, and should apply to the Farm Ownership, Farm Operating, Emergency Disaster, and Single Family Housing Programs. Eliminating existing loans would reduce borrowing and ultimately reduce interest costs.

3. As of June 30, 1982, there were 1.2 million loans outstanding in these programs. New loan obligations for the four programs are budgeted at $4.6 billion in 1983 for 113,900 loans. Accelerated graduations could offset at least the $4.6 billion budgeted for new loans, with resultant savings of $141 million per year in reduced interest subsidies.

4. In addition, curtailed growth of outstanding loans will allow administrative cost savings of $91 million per year by offsetting 113,900 budgeted new loans with a like number of graduations.

FmHA has about $58 billion in outstanding loans, almost 95 percent of which are direct loans. A transition from direct to guaranteed lending with a reduction in the percentage of the loan guaranteed from the current 90 percent to 75 percent would reduce risk exposure and reduce delinquencies (29 percent of FmHA loans are delinquent). Three-year savings are estimated at $448 million.

While FmHA's lending expertise is in farm loans, approximately 70 percent of FmHA loans are to nonfarm borrowers. Putting a greater share of the burden on the private sector for loan quality and payment performance is just plain good sense.

Three-year savings of $1.4 billion in the Natural Resources/Forest Service area result primarily from improved management of the timber sales program.

The Forest Service controls 190 million acres of land, has over 42,000 employees, and maintains about 900 field locations.

PPSS recommendations to implement a flat payment schedule for timber sales contracts would save $460 million over three years by encouraging timber harvests—the current "pay as you cut" policy encourages speculation since holding costs are relatively low.

The Forest Service gave away 3.9 million cords of wood in 1981. Charging an annual $10 fee for a permit to remove wood and $5 per cord removed would generate $66 million in three-year revenues.

The Forest Service provided the equivalent of 230 million recreation days at its ski resorts, parks, etc. at a cost of 51 cents per recreation day. Recreation fees come to about 8 cents per recreation day. Instituting new fees and increasing existing fees could generate $128 million in additional revenue over three years.

In total, the Agriculture Task Force Report covers 58 separate issues, some of which were summarized in today's testimony. The hundreds of recommendations presented in those issues can do much to mitigate the sharply escalating cost of our agricultural programs, which have increased from $26.0 billion in 1981 to $36.2 billion in 1982 and $46.4 billion in 1983.

I appreciate the time and attention this Committee has given to the review of PPSS recommendations. The interest shown by Congress gives us hope that the opportunities offered by PPSS will be fully explored and implemented.

Although PPSS is a commission established by Presidential Executive Order, 73 percent of its recommendations require the approval of Congress before they can be implemented. Congressional support for PPSS cost control efforts is, therefore, critical if the full savings impact is to be realized.

Over the course of the past several months numerous hearings and briefings have been held at which PPSS representatives have discussed their findings and recommendations and responded to questions from members of Congress and their staffs. I and my associates have provided testimony to both the Senate and House Budget Committees, the Senate Finance Committee, and other committees as well. The sessions have in nearly all cases been marked by a willingness to give a fair hearing to the recommendations and to consider how Congress might be involved in their implementation. Coming across clearly was a deep-seated concern with the burgeoning, costs of Government and a consequent openness to initiatives that give promise of moderating the problem.

Before concluding I would like to mention the system developed by the Executive Office of the President to review and implement PPSS recommendations. Each agency will evaluate each issue and recommendation, indicating whether the item can be implemented as recommended or whether it, in the judgment of the department, requires modification or has been identified for further study before implementation.

White House review groups have been established to consider department/agency responses. Cabinet members and agency heads as well as PPSS representatives have been invited to participate in all review groups considering matters affecting their departments/agencies.

It is the responsibility of each agency evaluating individual issues and recommendations to present an implementation plan and schedule to the White House Office of Cabinet Affairs, so that progress can be monitored.

Agencies already have accepted and are implementing many of the PPSS recommendations. For example,

A series of PPSS cash management improvement recommendations are being carried out Government-wide, with estimated savings of $4.7 billion by FY 1985.

An aggressive Government-wide debt collection program which has been under way for nearly two years was reinforced by PPSS recommendations. Savings targets were established for FY 1983-FY 1988, with projected total collections of over $20 billion.

The Administration has initiated action to reduce the number of employees in grades GS/GM 11-15 by 40,000, as recommended by PPSS. Total estimated savings through FY 1988 are $1.4 billion.

A reduction of over 1,400 employees in the Department of Health and Human Services, as recommended by PPSS, is being made, with an estimated $172 million savings over three years.

I and my associates are ready to provide whatever assistance we can, to the Executive and or Legislative branches, to further the understanding, acceptance and implementation of PPSS recommendations.

The Congressional Budget Office (CBO) and the General Accounting Office (GAO) have reviewed nearly 400 of the recommendations made by the President's Private Sector Survey on Cost Control, the Grace Commission. The Recommendations reviewed represent almost 90 percent of the potential three-year savings as estimated by the Grace Commission.

CBO took no position on the relative merits of the recommendations, but provided the cost estimates for specific proposals.

GAO analyzed whether the proposals could be implemented administratively or would require legislation, and focused its consideration on whether the proposals warrant support based on their individual merits. Many of the Grace Commission recommendations were the subject of in-depth GAO reviews and evaluations.

This joint report, "Analysis of the Grace Commission's Major Proposals for Cost Control", was released on February 28, 1984. The report was prepared in response to a request by both the House and Senate Committees on the Budget.

I have asked that excerpts on specific proposals recommended by the Task Force on the Department of Agriculture that were included in the CBO/GAO report be included in the hearing record.

--Jesse Helms, Chairman.

REVISE THE FAMILY MAKEUP FOR THE THRIFTY FOOD PLAN

(AG-9)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	490	515	540	560	585	2,690
Outlays	490	515	540	560	585	2,690

PPSSCC Proposal. The cost of the Department of Agriculture's thrifty food plan has been used as the basis for determining allotment levels in the Food Stamp program since 1976. The thrifty food plan is a set of foods that households might use to provide nutritious meals and snacks at a relatively low cost; it is the lowest-cost plan of four that the department has developed. The costs of these plans are updated monthly to reflect changes in prices. The plans and their costs are determined for a number of age and sex groups; costs for particular households can be calculated by adding costs for individual members according to their age and sex and applying economy-of-scale factors developed in conjunction with the plans.

Under current law, the maximum Food Stamp allotment for a four-person household during a fiscal year is based on the cost of the thrifty food plan during the preceding June for a household consisting of a man and woman 20 to 54 years of age and two children, one 6 to 8 and one 9 to 11 years of age. Maximum allotments for larger or smaller households are calculated by using the per person cost of the four-person reference family adjusted for economy-of-scale factors.

The PPSSCC proposal is to replace the current four-person reference family as the basis for the maximum allotment levels with a more individualized system based on a weighted average of thrifty food plan costs for all the age/sex categories used in developing the plan. The weights used would be the proportions of actual participants in each category. Maximum allotments for households of other sizes would be based upon this weighted average four-person household value and would be calculated using the current method.

Budgetary Impact. CBO used basically the same method as the PPSSCC to prepare its savings estimate. Differences between the current and proposed maximum allotment levels for each household size were calculated and multiplied by the projected number of households in each size category to arrive at the total savings estimate. However, the PPSSCC three-year savings estimate of nearly $3.4 billion from this proposal is more than twice as large as the CBO estimate of $1.5 billion for 1985-1987. The major reason for CBO's lower estimate is the use of the recently revised thrifty food plan, which is expected to be the basis of future allotments, rather than the original thrifty food plan developed in 1975. Differences in the projected caseload level, the PPSSCC's inappropriate inclusion of the Puerto Rico program in its estimate, and the commission's inclusion of minimum-benefit households in its savings estimates also contribute to this difference.

The 1983 revision of the thrifty food plan incorporates new data on food consumption, prices, nutritional composition of foods, and human nutritional requirements. The revised version was designed so that the cost level for the current reference family would be the same as that of the original version for an initial month. However, relative costs for different age and sex categories were not constrained to equal those of the original thrifty food plan. The revised plan has less variation in cost across age/sex categories than the original plan, and thus less savings as a result of changing from the current reference household to a weighted average of all participants.

Program Impact. This proposal would reduce maximum allotment levels and, as a result, benefits received by most households. Maximum allotments would be reduced because the average thrifty food plan cost for members of the reference household exceeds the weighted average of costs for all participants. This is because age and sex groups with relatively high costs tend to be overrepresented in the reference family and those with relatively low costs underrepresented. A male 20 to 54 years of age, for example, has a high thrifty food plan cost compared to other

categories. This group is 25 percent of the reference family, but only about 10 percent of the participating population.

This proposal would reduce benefits for all Food Stamp households except those one- or two-person households receiving the $10 minimum benefit. About 5 percent of all households currently receive the minimum benefit. The estimated amount of the reduction in the monthly benefit for each household size in fiscal year 1985 is shown below:

Household Size	Estimated Fiscal Year 1985 Monthly Benefit Reduction (dollars)
1	3
2	4
3	6
4	8
5	9
6	12
7	12
8	14

Implementation. Legislation would be required to change the method of calculating maximum allotment levels. The Food Stamp Act of 1977 requires that calculations for maximum allotment levels be based on the four-person "model" household.

Several bills have been introduced, but not adopted, that would have required the use of individualized allotments. With individualized allotments, maximum allotment levels for each household are determined by the age and sex of its members. No legislation has been introduced that would revise the current model four-person household in the way the PPSSCC recommends. The PPSSCC recommendation could be easily implemented as it would require no changes in current methods of program administration, and would have no direct effect on state or local governments.

Additional Comments. The PPSSCC report states that this proposal is an administratively simple method of bringing maximum allotment levels more in line with the dollar value of household food needs consistent with the thrifty food plan. Determining maximum allotments for each household based on its age and sex composition might be preferred but would be administratively burdensome and apt to increase issuance errors. This argument is based on the assumption that using maximum allotment levels more in line with individualized allotments would be consistent with the intent of the Congress in adopting the use of the thrifty food plan.

Opponents of the proposal argue that it is fundamentally a method of reducing benefits, that current Food Stamp benefits are already low relative to what might be needed to assure that participants' diets are nutritionally adequate, and that further reductions would have deleterious effects. They cite the most recent Nationwide Food Consumption Survey, which showed that only

9 percent of households using food valued at or below the thrifty food plan level consumed the recommended daily allowance (RDA) for 11 major nutrients, as compared with 50 percent of households at all spending levels.

The GAO agrees with the PPSSCC that changes are needed in the method of determining maximum monthly allotments but believes that the PPSSCC recommendation is not the best solution. The GAO has previously recommended that the Department of Agriculture establish demonstration projects to evaluate the use of individualized allotments. It believes that individuals would result in more equitable distribution of program benefits than either current policy or the PPSSCC recommendation.

References. PPSSCC, Task Force Report on the Department of Agriculture, pp. 47-53. GAO, Federal Domestic Food Assistance Program--A Time for Assessment and Change (CED-78-113, June 13, 1978).

REDUCE THE FOOD STAMP-CHILD NUTRITION OVERLAP

(AG-13)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five Year Savings
Budget Authority	500	515	530	550	570	2,665
Outlays	500	515	530	550	570	2,665

PPSSCC Proposal. Food Stamp benefits are currently calculated by subtracting 30 percent of the household's net income from a maximum allotment level that is determined for each household size. Net income is gross income less allowable deductions. The definition of gross income includes most sources of money income--not only earnings but benefits from programs such as Aid to Families with Dependent Children, Supplemental Security Income, Social Security, and Unemployment Compensation. Specifically excluded from the definition of gross income is "any gain or benefit which is not in the form of money payable directly to a household." Thus, benefits received in kind, such as free lunches in the national school lunch program or certain medical and housing assistance programs, have no effect on the level of Food Stamp benefits received by households.

The PPSSCC recommendation is to include as part of income the value of the cash subsidy for free lunches in the national school lunch program for households with school-age children. For administrative ease, a standard amount would be added to household income for each child between the ages of 5 and 17. The monthly amount would be 20 times the value of the federal cash reimbursement for a free lunch and would apply only during the months of September through May. The effect of this proposal would be to reduce Food Stamp benefits for households with school-age chil-

dren by an amount roughly equal to one-third of the federal subsidy for school lunches.

Budgetary Impact. CBO's estimate of savings from the commission proposal uses projections of the number of school-age children living in Food Stamp households, the cash reimbursement rates in the school lunch program, and the average effective rate of benefit reduction. During fiscal year 1985, for example, the cash reimbursement rate for free lunches is projected to be about $1.27 per meal. At 20 meals per month, the monthly addition to gross income, rounded to the nearest whole dollar, is $25 per school age children. The projected number of school-age children in Food Stamp households for 1985, based on forecasts of aggregate participation and age distributions from household survey data, is 6.81 million. The resulting increment to income across all Food Stamp households for the nine months of the school year is estimated to be $1,537 million. The total benefit savings would be 32 percent of this income increment, or $490 million. The estimate of $500 million savings in fiscal year 1985, and the estimates for later years shown above, were based on unrounded estimates of the per child addition to income. The CBO savings estimate of $1.5 billion for 1985-1987 is similar to the PPSSCC three-year estimate of $1.7 billion.

Program Impact. This proposal would reduce Food Stamp benefits to most participating households with school-age children. These households currently are about 40 percent of all participating households. Of this group, 13 percent have deductions that exceed their gross income so that the addition of "school lunch" income would tend not to affect their benefits. The monthly reduction in Food Stamp benefits resulting from the increase in income would vary depending on the size of the household's excess-shelter deduction, which is affected by gross income. If the household has no excess-shelter deduction or a deduction at the maximum allowable level, monthly benefits would be reduced by 30 percent of the increase in gross income--about $7.50 per school-age child. If the household's excess-shelter deduction is positive but not at the maximum, monthly benefits would be reduced by 45 percent of the increase in income, or about $11.25 per school-age child. The average reduction across all households with school-age children, including those whose benefits are not likely to be affected because their deductions exceed their gross income, would be 32 percent of the increase in income.

Implementation. This proposal would require legislation, as the Food Stamp Act specifically excludes in-kind benefits from the definition of income for purposes of determining benefits. A related proposal was included in the President's budget for fiscal year 1982, was considered by the Congress, but was not adopted.

Additional Comments. The PPSSCC holds that both the Food Stamp and the National School Lunch programs are designed to subsidize meals for eligible participants, and that under the current system duplicative benefits are provided. Food Stamp benefits are provided for meals of school-age children who also receive free

lunches through the school program. The PPSSCC argues that its proposal is fair and realistic because it treats the benefits of the school lunch program like other forms of assistance. The recommendation does not eliminate the "overlapping" benefits but does reduce the amount of duplicative benefits issued.

Opponents of the proposal argue that assistance designed to improve the nutritional health of children should not be reduced, the Food Stamp benefits are already low, and that further reductions in addition to those enacted during the past several years may have detrimental effects on participants.

GAO supports the concept of considering benefits from the various food assistance programs when determining eligibility and benefits under any particular food program. GAO recommended in 1978 that the Department of Agriculture study the feasibility of considering food benefits from child feeding programs, when determining Food Stamp eligibility or benefits. It also recommended that the Congress eliminate the overlap in benefits, particularly from Food Stamp and school lunch participation, if the study showed such a change was feasible.

References. PPSSCC, Task Force Report on the Department of Agriculture, pp. 66-68. GAO, Federal Domestic Food Assistance Programs--A Time for Assessment and Change (CED-78-113, June 13, 1978).

ELIMINATE DONATIONS FROM THE COMMODITY CREDIT CORPORATION TO OTHER AGENCIES (AG-22)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-15	-35	-50	-65	-80	-245
Outlays	-15	-35	-50	-65	-80	-245

NOTE: Negative numbers indicate net budgetary costs.

PPSSCC Proposal. The commission proposes to hold donations by the Commodity Credit Corporation (CCC) to other programs at $728 million, approximately the 1982 level. The CCC would continue to procure commodities--mostly dairy products and grains--through its price support activities and to distribute portions of its inventories to the Food and Nutrition Service, to the Veterans Administration, to penal institutions, and to foreign recipients under the Public Law 480 food aid programs. At present, the CCC receives reimbursement from some of these agencies for only a portion of these distributions. Under the PPSSCC plan, the CCC would release no stocks to other agencies without reimbursement obtained through the Congressional appropriations process.

Budgetary Impact. .The commission estimates that CCC donations would be halved by its proposals, for a net reduction in three-

year outlays of roughly $1.2 billion. Though requiring agencies to reimburse the CCC for donations might enhance the agencies' accountability to the Congress, CBO analysis finds no potential for budgetary savings. Any reimbursement to the CCC is merely an intragovernmental transfer, not a reduction in total budget outlays, and federal expenditures for CCC purchases through price support activities will still occur. In fact, CBO estimates that outlays would actually increase if this proposal were implemented. Freezing CCC donations at the $728 million level would result in increased inventories and correspondingly greater storage costs, totaling about $245 million over five years.

Program Impact. A donation level held at $728 million would reduce the levels projected in the CBO baseline by 55 percent to 60 percent and would fall 60 percent below the President's 1985 budget estimate. The volume of commodities available for donation to the poor through charitable institutions accordingly would not increase.

Implementation. The Secretary of Agriculture has the authority to institute both the decreased donation level and the recommended reimbursement practice. Agency reimbursements would be subject to appropriations action.

Additional Comments. GAO believes the PPSSCC proposal that agencies be required to reimburse CCC for any surplus commodities received would improve accountability. GAO believes, however, that the Secretary should seek the advice and counsel of appropriate Congressional committees before implementing the recommendation, even though current law gives him authority over the disposition of CCC inventories.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 107-9.

IMPROVE TIMBER SALES CASH MANAGEMENT (AG-41)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	170	275	190	-100	-110	425
Outlays	170	275	190	-100	-110	425

NOTE: Negative figures indicate budgetary costs.

PPSSCC Proposal. The commission proposes that the Forest Service impose a flat payment schedule on future timber contracts. In the past, and under most existing timber contracts, purchasers have been required to pay for timber only as it was being removed from the forest. Because the average duration of a timber contract was three to four years, and purchasers typically waited as long as possible before harvesting, the federal government did not receive payment for most of the timber sold until three to

four years after the expenses of the sales preparation had been incurred. The effect of the PPSSCC proposal would be to accelerate Forest Service receipts; complete payment for a timber contract, however, would continue to take three to four years.

Budgetary Impact. The estimates above are based on historical information from the Forest Service and its timber-sale projections for the 1985-1989 period. The CBO assumes that, under the current contracting procedures, receipts over a four-year average contract would be 100 percent, 15 percent, 30 percent, and 45 percent of the contract value in each year, respectively.

Under the flat payment schedule, CBO assumes the bids on contracts would be an average of 10 percent lower than under the more flexible current practice. (This is based on data indicating that, with contract lengths shortened from five years to two years, bids have decreased by as much as one-third.) Receipts are expected to be realized at a rate of 25 percent per year over the four-year contract life. Assuming sales of 1.3-1.6 billion board feet annually, CBO estimates a net outlay savings of $425 million over five years.

The PPSSCC estimates savings of $150 to $160 million from timber sales made in each of the years 1983 through 1985. This estimate is on a present-value basis, rather than on a budgetary basis, and does not adjust for likely reductions in bids that would result from implementing its proposed change. In addition, the commission's estimate does not reflect recent changes in regulations governing the timing of timber sales payments, which accelerate the payment schedule.

Program Impact. Creation of a flat payment schedule would reduce the flexibility of timber purchasers to harvest in response to fluctuations in the timber market. This could cause bids to decrease on future contract.

Also, because of the recent history of the timber industry--a number of years of speculative biding in certain regions, followed by one of the worst slumps recorded--many companies now hold unprofitable contracts. Changes that would require earlier payments on new contracts now would create additional cash-flow problems for these companies.

Finally, the Forest Service is now holding the highest inventory of uncut timber volume under contract in history. Creating a system whereby new timber under contract had to be cut early (in preference to the older contracts) could undermine efforts to increase the cutting of timber already under contract.

Implementation. A flat payment schedule could be implemented administratively. Over the past few years, the Forest Service has already changed its contracting procedures to improve its cash-flow position. Requirements for a new contract now include a 10 percent deposit within ten days of a sale and payment of 25 percent of the sale value by the midpoint of the contract. Also, in region 6 (the Pacific Northwest), where a large percentage of the total federal timber receipts are realized, discounts for

early removal are provided, and stumpage rates are adjusted over time. Immediate implementation of the PPSSCC's flat payment schedules on timber contracts would therefore cause confusion and lose the benefits of experience from the changes now under way.

Additional Comments. In GAO's review, it is inappropriate to make changes before the results of the Forest Service's revised payment regulations are evaluated. Since the regulations are designed both to accelerate cash flow and to encourage earlier timber harvest.

Reference. PPSSCC, Report on Department of Agriculture, p. 188.